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PROCEEDINGS BOOK



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Editors

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Mehmet YÜCE	Co-Rector of Uludağ University		

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Military Spending, Economic Growth and Investment: Income Group Based Findings

Christos Kollias¹

Suzanna-Maria Paleologou²

Military expenditures represent a country's outlays in order to purchase the inputs used for the production of military capabilities and strength. The allocation of resources to national defence has important economic ramifications usually encapsulated by the guns vs butter dilemma that is especially applicable for developing countries endowed with comparatively less resources vis-à-vis developed economies. For instance, the defence budget may siphon funds away from other forms of public spending that are either more beneficial to the economy or are socially more preferable vis-à-vis military spending. However, the channels through which the economy and national defence are interlinked extend well beyond the guns vs butter type of opportunity cost.

The question of the economic impact of defence spending can be placed within the broader discourse on the nexus between public spending and growth that has generated an extensive and often emotive theoretical and empirical debate. Although by no means universally accepted, government expenditures are widely regarded as an important fiscal stimulus to growth especially in periods of economic downturns. In a similar vein, but with an appreciably lower degree of intensity and conviction, both demand and supply side growth enhancing effects are attributed to military expenditures.

The former refer to aggregate demand stimulative impact that can prop-up growth and act as revitalizing injection, especially in a slacking economic environment. Clearly, this is not an unchallenged view and critics argue that other forms of non-military government spending, for instance infrastructure expenditure, may very well have an equal if not greater positive impact on the economy. The supply side effects of defence spending, can mainly take the form of military-induced technological advances from R&D programs that often heavily rely on public funding. Such technological advances and innovations find, through spill-over mechanisms their way into the civilian sector, increasing productivity and hence stimulating growth.

On the other hand, it should be stressed that such spending has also been shown by a number of studies to have growth retarding effects mainly through the crowding-out of growth promoting variables such as investment. The issue of the economic effects of such public outlays has come under extensive and intense empirical scrutiny

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generating a fervent debate without producing any robust uniformity in the reported findings. The new consistent database on military spending compiled by SIPRI offers the opportunity to reassess in a more reliable manner the economic effects of such expenditures over an appreciably longer time horizon.

The paper focuses onto two key macroeconomic variables – economic growth and investment – that have invariably featured in empirical single or multi-country studies that addressed this theme. A panel vector autoregression (PVAR) methodology is employed. Since defence spending can potentially affect the economy through a number of channels some of which may depend upon the attributes of the economy the sample used is split into income groups: high, middle and low. Given the inevitable data constraints, the sample is a compromise between T and N consisting of 65 countries and covering the period 1971-2014 that allows for a total of 2730 observations.

The PVAR model is estimated for the entire sample as well as the three income group sub-samples. The results yielded from estimating the PVAR model seem to justify this choice since noteworthy differences between income groups are unearthed. Only in the case of the high income group of countries did military spending appear to exert a positive effect on growth and investment. Tentatively, this finding can probably be attributed to the effective demand and technology spillovers channels via the defence industry sector. Such a finding is absent from both the middle and low income groups as well as the entire sample which probably reinforces the previous inference. There, the dominant finding was that of growth exerting a positive income on defence expenditure. A cautious interpretation is that as the economy grows, this allows for more resources to be channelled to the defence sector.

Given that countries in these two groups are, in comparative terms, faced with more acute security challenges and conflicts vis-à-vis the high income ones, this could cautiously explain the direction of the nexus established in the estimations. Alternatively, this association in the case of these two income groups maybe picking rent seeking behaviour on behalf of the military elites in these countries. Furthermore, the negative relationship between investment and military spending in the case of the low income group, is strongly hinting a trade-off between the two given that low income countries face more acute resource constraints. Finally, the IRFs indicate that any shocks exerted are invariably short-lived. Clearly, the findings reported above are only an initial assessment, using SIPRI's new dataset that now allows to extend the empirical investigation into this complex and dynamic relationship for a longer time period spanning both the bipolar and post-bipolar periods. Nevertheless, in line with previous studies that cover shorter time periods, they do seem to suggest that this relationship cannot be generalized across countries and probably depends among other things, upon the attributes of the economy. In this sense, our findings can be seen as constituting a further step towards an empirical consensus.

Key Words: Military spending, Economic growth, Investment, Income group.

JEL Codes: F43, O11.

Evaluation of the Problems Regarding with Taxation of Electronic Commerce on the Axis of the Informal Economy and Tax Evasion

Güneş Çetin Gerger¹

Burçin Bozdoğanoglu²

1. Introduction

In the age of information, tax administration and tax policymakers have important tasks to be taxed the taxpayers correctly. Regarding with globalization, it is important to register the increasing volume of trade and tax it in a fair and equal method. Today, a considerable part of the world trade takes place in the electronic environment. This situation requires accurate quantification of tax, accurate definition of places and taxpayers, assessment of trade quantity where it takes place in the electronic environment. However, the difficulties in determining the trade location of the business, difficulties in determining the amount of tax, tax havens, preferential tax regimes, tax evasion opportunities, difficulties in supervisory and information exchange, provide the tax evasion environment in electronic commerce. In order to reduce tax evasion, the OECD has redefined the concept of tax fairness to provide equality, established on the principle of objectivity, reducing resistance to revenue administrations and providing tax compliance. In the line of these principles, tax administrations are trying to establish norms and legal associations to reduce tax evasion that led the informal economy in electronic commerce by making cooperation. In this study, issues of e-commerce registration, issues between jurisdictions, audit and collection will be examined and principles to be considered by tax administrations will be mentioned. The digital technology may lead to illicit financial flow through electronic commerce in this context technological definition, assurance, accessibility and the establishment of the authority of tax administration importance will be discussed. In the first part of the study, general problems and regulations in the taxation of electronic commerce will be mentioned briefly. In the second part, the place of electronic commerce and tax evasion in the informal economy will be mentioned. To reduce tax evasion in electronic commerce, the proposals for the tax policy makers and revenue administrations will be mentioned in the last part.

2. Problems in the Taxation of Electronic Commerce

E-commerce is a difficult and problematic area for taxation because anonymity in identity of a person who performed the operation (true identity is not clear) difficulties

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in proving the document of transactions, tax havens, corporations with obligations in more than one country, tax administrations deficiencies, identifying companies and the absence of capacity to manage VAT. These factors also make it difficult for tax administrators to collect the tax revenues that they should receive in the electronic trade.

General problems with taxation of electronic commerce may be grouped under several headings. These problems; the lack of physical location and central control of the internet, problems with auditing and implementation, problems with electronic and virtual money use, and the erosion of the tax base.

3. Digitalization of Economy and Effects on Tax Evasion

As electronic commerce gets its power from digitalization, new challenges are being added to issues that are experiencing a growing taxation difficulty everyday.

In this section, the concept of digitalization and the economic effects of this concept will be mentioned and the effects on tax systems and tax evasion will be tried to be explained. In addition, it will also refer to the contribution of electronic commerce and companies operating in this area to illicit financial flows.

4. Informal Economy and Electronic Commerce Relation

In this section, the relation between the informal economy and the electronic commerce will be tried to be explained in the context of the digital informal economy and sharing economy, which are new concepts emerging together with technological developments.

5. Propose Solutions to the Problems Experienced in the Taxation of Electronic Commerce

In this section, the decisions and proposals received by the OECD and EU Commission on the problems experienced in the taxation of electronic commerce will be given. In addition, legal regulations on electronic sharing economy and digital informal economy and electronic taxation will be presented as alternative proposals.

6. Conclusion

Electronic commerce, the new name for trade, which technology influences, can be explained in the narrowest sense as the exchange of physical or digital products in an electronic environment. The most important advantage of electronic commerce in traditional trading is the ability to quickly overcome geographical boundaries in the international area. However, this advantage of electronic commerce requires new arrangements in terms of revenue administrations. Revenue administrations aim to understand the place and time of income of individuals and institutions in terms of

taxation. It is difficult for the nature of transactions to be able to reveal the existence of the tax generating event in commercial transactions occurring in the electronic environment.

At the beginning of the taxation problems arising from the nature of electronic commerce, the fact that the internet is not in physical status, the wasting of information resources and therefore the tax audit is the strongest.

Transactions in electronic commerce are usually made by credit card, and the use of electronic money is also possible. The application of virtual money (bitcoin) has recently been used as an alternative payment method in electronic commerce. Since there is no legal regulation different from electronic money, there are significant difficulties in control and supervision of the operations carried out by virtual money in terms of both revenue administrations and governments.

Electronic commerce, an important source of venue for tax administrations, has made this field vulnerable to tax evasion with the rapid digitization process. Significant part of the users operating via electronic commerce is not registered. Moreover, the fact that electronic commerce companies are able to transact their geographical boundaries rapidly due to their qualities cause these companies to use for illicit financial flows. Since funds from illicit financial flows, money laundering, tax evasion and corruption involve the transfer of funds in contradiction to national or international laws, electronic trading companies are very viable alternative for the transfer of these trends.

One of the most important risks of electronic commerce is that consumers cannot find the physical addressee and they do not have the opportunity to see or test the product they want to buy until the moment of delivery. This situation has led to the concept of "digital informal economy". Earnings from fraudulent e-commerce companies, profits from transactions such as copying consumer credit card information through fraudulent mail or viruses, etc. this economy, which includes applications, is completely informal. This ever-expanding system is fed from the digital world, with the traditional unregistered economy being comparable.

The innovation that electronic commerce has earned thanks to smartphones is the "sharing economy" concept. Uber, Airbnb, Blablacar as well as lack of any legal regulation, the taxation of income, informal income, and control is a matter of discussion in many countries. Legal arrangements should be made in this regard to prevent informality.

At the point of the problems faced in the taxation of electronic commerce, the OECD states that in order to minimize tax evasion, tax policies should be redefined to include principles of impartiality, efficiency, certainty and simplicity, equality, flexibility based on tax justice. The European Commission emphasizes the need for simplification, transparency and stability in order to create favorable conditions for the growth of the e-economy and the mainstream economy as a whole.

While e-commerce is taxed in the form of an economy that is fully digitalized, it may be advisable to make use of e-taxation, which requires investing in technological infrastructure, to strengthen the audit mechanism in this way.

Key Words: E-commerce, Informal economy, Tax evasion, E-Taxation

JEL Codes: L81, E26, H26, H83

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Towards the Deepening of Customs Union: State Aids and Tax Incentives under Association Law

Leyla Ateş¹

1. Introduction

Even if the use of incentives go back to the past centuries, they are offered increasingly in the modern world to steer people's choices in certain directions and to bring about desired policy outcomes in government, in education, in health care, in private life, and between and within institutions. Especially since the 1950s, national governments have been extensively using to promote their economic, political and social policies. However, the governments intervene the market when they use incentives tools and this intervention may have cross-border effects on other economies. Since the negative externalities on other economies in the form of import substitution or export promotion and competition distortion effect, a need for incentive regulation raises at the international level.

2. State Aids and Tax Incentives under EU Law

The European Union (EU) has developed such state aid rules in order to safeguard the common market from the undesirable effects of government financial support on intra-community competition. In the EU primary law, state aids are principally accepted incompatible with the internal market. According to the related provision, state aids might be any form whatsoever but tax incentives are not literally mentioned. Nonetheless, the European Court of Justice has implemented state aids rules to tax incentives since its early decisions. Besides limited modifications, the wording of primary law on state aids did not evolve, but there have been considerable developments on the basis of secondary and supplementary law which influenced taxation. Moreover, as a new notion, the EU started to use state aid rules to curtail harmful tax competition.

3. State Aids and Tax Incentives under Turkey-EU Association Law

EU negotiates association agreements with third countries that are legally binding on the member countries and EU institutions after duly come into force. Such a legal relation between Turkey and EU was laid by the international agreement, which was

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signed on 12 September 1963 and referred to briefly as the Ankara Agreement. According to Article 1, an Association was established between Turkey and EU (former European Economic Community, later European Communities). This Association foresees an economic union starting with the customs union and leading to full integration. In this respect, Decision No. 1/95 of the EU- Turkey Association Council known as Custom Union Decision (CUD) does not include only the main elements included in the classic definition of the custom union, i.e. trade liberalization between the parties and the application of a common tariff to third countries. At the same it includes the goal of alignment with the EU policies such as custom modernization, elimination of technical barriers, protection of industrial and intellectual property rights, implementation of competition policies, anti-dumping, counter-vailing measures and state aids.

The CUD includes provisions equivalent of state aid rules in the EU Law. According to related CUD provision, state aids fulfill following four elements will be considered incompatible with the proper functioning of the Custom Union: the presence of a benefit, aid that is granted by a member state or through state resources in any form whatsoever, aid that distorts or threatens to distort competition and affects trade between member states, aid that favours certain undertakings or the production of certain goods. Similar to EU Law, CUD sets forth limitations to the incompatibility principle. In those cases, state aids will be considered compatible with the proper functioning of the Custom Union.

4. Conclusion

The state aid rules of Turkey-EU Association Law have so far had limited effects on tax incentives implementation in Turkey. However, Turkey and EU are planning to launch official negotiations to update the Custom Union in 2017 for the purpose of deepening of it. In this process, the EU will compel Turkey to adapt and practice a state aid regime in accordance with the EU acquis. Considering significant recent developments in the implementation of state aid rules to the area of taxation in EU policies, the updates of Custom Union will probably affect the Turkish tax incentive regime substantially. Thus, it is necessary to examine in detail the legal limitations that state aids rules under Association Law impose upon Turkey in regard to the use of tax incentives.

Key Words: Tax Incentives, State Aids, Turkey-European Union Association Law

JEL Codes: K34, H23, H25

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The Effects of Illicit Financial Flows from Financial Crimes on Developing Country Economies

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1. Introduction

Tax crimes, money laundering and other financial crimes can threaten the strategic, political and economic interests of both developed and developing countries. They also undermine citizens' confidence in their governments' ability to get taxpayers to pay their taxes and may deprive governments of revenues needed for sustainable development (OECD, 2011).

There are various definitions of illicit financial flows, but essentially they are generated by methods, practices and crimes aiming to transfer capital out of a country in convention of national or international laws. Current literature on this issue suggests that illicit financial flows generally involve the following practices; money laundering, bribery by international companies and tax evasion, trade mispricing (OECD, 2014). Therefore, illicit financial flows are come into the point where financial criminal activities exceed national boundaries.

Issues of financial crime and illicit flows are concern to all countries, but particularly to developing countries. One of the most important structural economic problems of developing countries is the inadequacy of capital accumulation. The inadequacy of capital accumulation is the most important reason why developing countries remain in the vicious circle of poverty and not complete the development process. Illicit financial flows resulting from financial crimes strip resources from developing countries that could finance their long-term development.

The inadequacy of capital accumulation in developing countries makes these vulnerable to unquestioned source of money transactions and financial crimes. Nonetheless, the audit rates in the tax system and the low penalties can be perceived as a sign of the tolerance shown to tax evasion. The governments can, by committing to low auditing and punishment rate, limit the effectiveness of income taxes in the future (Renström, 1998). It can be determined at this point that tax evasion is an invisible tax expenditure in terms of tax administrations i.e. disposable tax income. Although this is not a desirable choice for governments, it may be a sign of ensuring that the source of some income is not questioned in order to ensure that the capital remains in the country and/or that tax declarations are issued by tax amnesties in certain periods without questioning the source. Thus, it is considered that the capital accumulation will be kept in the country and the investment transformation will be

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opened. Whereas very often, this means that illicit financial outflows from developing country ultimately end up in banks in developed countries like the United States, as well as in tax heavens like Switzerland, Virgin Islands. Many countries and their institutions actively facilitate- and reap enormous profits from- the theft amounts of money from developing countries (GFI, 2015).

Illicit financial flows have a substantial impact on developing nations such as reducing tax revenues. Illicit financial flows also reduce foreign exchange resources thereby inhibiting growth and the ability of nations to invest in infrastructure and businesses (CID, 2014). Additionally, as those who benefit from illicit financial flows grow wealthier they are able to exercise greater influence over the polity within the states they operate. This can curtail the ability of governments to pass transformative policies. Illicit financial outflows drain hard currency reserves, heighten inflation, reduce tax collection, cancel investment, undermine trade worsen poverty, and widen income gaps. (The World Bank, 2012).

In this study, the effects of illicit financial flows resulting from financial crimes on developing country economies will be examined. In this framework, the definition, scope and dimensions of financial crimes and illicit financial flows will be given firstly and the sources of these trends and transfer methods will be explained. The effects of illicit financial flows on developing countries' economies will be explained and the problems that are experienced will be explained and the alternative solutions that international institutions can implement in their own internal dynamics and solutions will be mentioned.

2. Definition and Scope of Financial Crimes and Illicit Financial Flows

In this section the definition of financial crimes and illicit financial flows will be made, which actions will be evaluated in this context and the dimensions of illicit financial flows will be mentioned.

3. Sources of Illicit Financial Flows

Moreover, illicit financial flows have many resources such as money laundering, bribery by international companies, tax evasion and trade mispricing, tax based resources will be examined in detail under a separate heading while other sources will be covered in a shorter time.

4. Transfer Methods of Illicit Financial Flows

In this section the methods of transferring illicit financial flows such as trade mispricing and international money laundering will be examined.

5. The Effects of Financial Crimes and Illicit Financial Flows on Developing Country Economies

In this section the damage that illicit financial flows to developing country economies will be revealed in this framework.

6. The Role of International Organizations on Illicit Financial Flows

In this section, international organizations such as OECD, GFI (Global Financial Integrity), FATF (Financial Action Task Force), World Bank will provide solutions and suggestions on combating financial crime and illicit financial flows, as well as decisions taken on the G-20 forum.

7. Conclusion

Illicit financial flows have come under the spotlight recently, following high-profile controversies and growing awareness of their negative consequences for developing nations. Stemming the movement of illicit financial flows has also been identified as a priority by the OECD and the G20 forum (CID, 2014). In these conferences and forums several complimentary solutions such as automatic exchange of information, beneficial ownership, country by country reporting, have been proposed that would close systemic loopholes and restrict the ability of individuals and companies to exploit tax structures around the world. However, illicit practices are largely entrenched within the global financial system. Whether proposed solutions are sufficiently adopted by nations around the world remains to be seen. These proposals include solutions to international co-operation due to the international nature of the illicit financial flows that emerged as the result of negotiations on international platforms. In addition to this, each country can produce appropriate solutions for its own structure in fight against financial crime and illicit financial flows. One of the common problems of developing countries at this point is that tax evasion is tolerated in various forms due to the inadequacy of capital accumulation.

Beside low audit and penalty rates, short term tax amnesties that are presented to taxpayers on a wide of terms are perceived by the individual as a tolerance to tax evasion (Andreoni, 1990). Raising audit rates at this perceptual change point can be presented as a solution that can be implemented in the first place by establishing a systematic structure that includes deterrence in both judicial and administrative penalties.

While the main target in developing countries is to accumulate capital and close budget deficits the easiest way to achieve this is as if tax amnesties, but this is a short term and temporary solution. It is again the will of the governments to make this long term and lasting. Putting the declared money in tax amnesties without any questioning of source into the capital of existing companies of taxpayers or channelizing of taxpayers' money to investment as a prerequisite can increase the contribution of this

period to capital accumulation. At the same time such a method will help to remove the negative effect of the tax amnesties on taxpayers who do not pay the tax regularly.

Finally, nevertheless, if political support for robust changes continues to grow and technological innovations are available to strengthen any regulation, we may make real gains in the fight against illicit financial flows.

Key Words: Illicit financial flows, Financial crime, Tax evasion, Developing countries

JEL Codes: H26, H54, K42

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Misleading Documents and Fake Documents Concepts on Tax Evasion Crime in the Light of Decisions of the Supreme Court

Ahmet Bozdağ¹

1. Introduction

Tax is one of the most important sources of meeting public expenditure and at the same time one of the most important signs of sovereignty in terms of government. The fact that tax is so important in terms of the state forces the state to take deterrent measures to ensure that the taxation process, the accrual, notification and collection processes, take place correctly and completely. One of the important measures taken by the state in order for the taxation process to take place in a healthy way is to arrange and criminalize some acts that are against the tax law (Çavuş, 2016: 19).

In the Tax Procedure Law, three tax offenses are regulated, but the most disruptive of public order is "tax evasion crime". Tax evasion is an electoral movement crime in terms of movement. This crime is a criminal offense committed by the processing of at least one of the ten separate acts organized in 359 (Bayraklı, 2015: 81; Şenyüz, 2015: 442). Tax evasion is the most often handled by acts such as "compose misleading document or using misleading documents with compose fake document or using fake document". In order to contribute to the application, the concepts of "misleading documents and false documents" included in the tax evasion criminal acts has been examined in this paper.

2. Misleading Documents and False Documents in Tax Smuggling Cases

The common theme of the concepts of "misleading document" and "fake document" in the crime of tax evasion is that a document must first be found so that both fraud and misleading can occur. Therefore, in order to understand these concepts, it is necessary to explain what should be understood as the common belief in these concepts. For this reason, we will first explain the concepts of "document" in tax law and the concepts of misleading documents and false documents.

2.1. Document in Tax Law

In the context of the tax evasion crime, it is necessary to firstly have a document in order to be able to talk about a misleading document or a false document. There is no information on the definition of the document, although the document types are

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mentioned both in the VUK of 213 and the Turkish Penal Code. However, it is explained how the concept of document should be understood on the basis of Article 204 of the TCK which regulates the offense of forgery of official documentary. A document has been defined on the grounds of article 204 of the Turkish Penal Code and in the case-law of the Court of Cassation. Accordingly, the document is defined as any written object which conveys the events and whose declaration of will is of legal value and is organized by the person concerned (Koca & Üzülmöz, 2015: 669). In order to a document to be mentioned in this definition;

- To be a written object
- The written object must contain a declaration of will
- Will declaration is favorable for legal consequences
- It must be understood from the written object that the will statement belongs to whom.

It is regulated by means of counting which objects are generally accepted as a document in the tax law between Articles 229 - 242 of the Second Book of the Second Book of the Tax Law No. 213 and Articles 181-205 of the VUK Design. Accordingly, in the tax law, "invoice, retail sales package, expense compendium, producer receipt, self-employment receipt, payroll, transport schedules, delivery note, passenger ticket" are accepted as documents (Önal, 2016: 19). Although the books kept under the tax law carry the document characteristic in technical terms, the books are not accepted as the books and documents in the scope of the tax evasion guilt because the books listed in the VUK are not included in the books (Şenyüz, 2015: 459; Taştan, 2015: 70). Therefore, the common theme of the notions of forged documents and deceptive documents only constitutes documents which are considered to be the subject of the VUK in narrow scope.

2.2. Misleading Document

Deception, deceiving, deceiving, deceiving, deceiving in the sense of intrigue, if someone has an act or action that someone else is not actually doing or an action that has not happened, or has never happened, is different (Yılmaz, 2002: 479; Koca & Üzülmöz, 2015: 644; Altundiş, 2007: 177). The misleading document has been defined both in the VUK 213 and the VUK scheme. According to the VUK 213, "a misleading document is a document which, while based on a real treatment or situation, reflects this treatment or situation in a way that is untrue in nature or quantity". According to the VUK design, which has a more descriptive and detailed definition, "a misleading document is a document that reflects on the basis of actual treatment or situation, the kind, quantity, price or amount of the goods or work and the nature of the treatment or situation. Therefore, in order to a document to be a misleading document;

- It should be one of the valid documents which are considered as documents in the VUK and which must be kept and presented,

- The document has been edited by the tax liability or responsible person in the context of tax liabilities (Şenyüz, 2015: 445),
- The fact that the goods or work that constitute the subject matter are wholly or partly unreasonably arranged in kind, quantity, price or amount (Taştan, 2015: 67),
- The document must have been regulated contrary to reality from the beginning (Taştan, 2015: 71),
- The document must have an objectively misleading feature (Çavuş, 2016: 128).

2.3. Fake Document

In the dictionary, fake word, imitation, fake word that comes to its unreal meaning, and criminal law concept is to show a non-real thing as an existent or an actual event as being absent (Koca & Üzülmöz, 2015: 680). In tax law, the meaning of the fake concept is accepted in a narrow framework and is used only to mean that it is presented as if it were not a real treatment or situation. The counterfeit document has been similarly described both in Article 359 / b of the VUK 213 and in Article 282/2-c of the VUK scheme. According to this, "fake document, documented as if it were a real treat or situation if not present". In the light of this definition, doctrine and Court of Cassation case-law, a document should have the following characteristics in order to be accepted as a false document;

- In the VUK, one of the documents which are considered as documents and which must be kept and presented must be found.
- The document must be edited.
- The document must be arranged as if it were in the absence of actual treatment or circumstance (Bayraklı, 2015: 90).
- The document must have an objectively misleading feature.

The main difference between a fake document and a misleading document is whether the treatment or situation that constitutes the document is true. A false document is the document that shows the document as if it were present, even if it was never actually a transaction or situation. A misleading document is different from the document or situation that constitutes the subject matter of the document, in that it is in fact the document, the subject matter, the quantity, the price, or the amount (Taştan, 2015: 68; , Gündüz, 2011: 91).

3. Conclusion

Within the scope of the tax evasion guilt, at least one of the limited and narrowly scoped documents must first be found in the VUK for misleading or false documents to

be mentioned. Falsification or misrepresentation of documents outside these documents will not constitute a material element of the tax evasion charge.

The misleading document that will constitute a criminal offense of tax evasion is a document which is considered as a document in the VUK and which is a valid document which must be kept and presented and which is liable to be partially or totally unreasonable in kind, quantity, amount or nature in kind or quantity, It must be a document with the misleading characteristic regulated by the responsible person. A counterfeit document should be a document that appears to be partially or completely present in the VUK, if it is deemed to be a document and a valid document that is required to be kept and presented is not a true tax status or treatment.

Key words: Tax Crimine, tax evasion crime, misleading document, fake document.

JEL Codes: A27, A63, A80

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The Effect of Institutions and Conflict on Economic Performance

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1. Introduction

Political economics and institutional economics have attracted a great deal of attention in the recent times. A considerable number of papers have been provided for the literature in this field with the moving force of the so-called attention. In this study, the effect of institutions on economic performance was examined in two groups as Europe and Middle East Countries and Turkey has been included in both groups. Both groups of countries have been taken shape within the framework of political economics and institutional economics. Our basic aim in this paper can show how institutions affect economic growth of countries groups. We contribute to include different variables such as conflicts and religion in institutional framework. In this context, panel data were created with annual observations and the prediction of system GMM was estimated as an econometric method.

In the next headings, we gave parts of related literature, econometric model and data description, econometric method and conclusion.

2. Related Empirical Literature

There are lots of theoretical and empirical papers in literature about institutional economics. Daron Acemoglu has gone to the front with the new institutional economics. Barro is of great importance with respect to macroeconomics and political economy.

Institutional specialties, such as rule of law, expropriation risk, property rights can affect economic performance (Acemoglu et. al., 2000). Acemoglu et. al. (2014), democracy increases future GDP and economic growth. Barro (1994), emphasized there is a connection between democracy and political freedom and economic growth.

3. Econometric Models and Data

We presented above paragraph we examined the study in the form of two groups, such as Europe and Middle East. European Countries were analyzed with the variables of GDP per capita (y), the rule of law (law), property rights (prop), freedom of opinion (opin), index of democracy (democ), religion (relig) and conflicts (conf) for the period between 1990 and 2014. Middle East Countries were also researched with GDP per capita (y), the rule of law (law), government effectiveness (govern), religion (relig) and conflicts (conf) because of the lack of data for the period between 2002 and 2015.

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The econometric model:

$$y = \alpha_1 + \alpha_2 law + \alpha_3 prop + \alpha_4 opin + \alpha_5 democ + \alpha_6 relig + \alpha_7 conf \quad (1)$$

We used logarithm for of some variables like GDP per capita in terms of economic and econometric theories. And then, summary statistics were given in Table 1.

Table 1: Summary Statistics

Variables	Observations	Mean	Std. Dev.	Min	Max
y	622	28249.36	19929.2	3582.85	110001.1
law	628	41.89	35.57	-31.51	100
prop	631	59.79	20.93	2.16	100
open	634	18.65	13.79	0.51	74.04
democ	642	79.24	18.90	0	99.52
Relig	650	0.04	0.19	0	1
conf	650	2.26	15.48	0	300

And then, we show the related graph of each countries' GDP per capita. It is clear that the graph in question support summary statistics.

Figure 1: GDP per capita of European Countries



4. Econometric Method and Findings

We used system GMM and fixed effect and random effect approaches in panel data form as an econometric method. By the way, the dynamic system GMM estimator was developed by Manuel Arellano and Stephen Bond (1991). We benefit from xtabond2 STATA routine. It was written by David Roodman (2006). First of all, unit root tests were performed to determine the extent to which the series are stationary. We have observed that the first differences, not the level values, are stationary with the tests in question. In other words, the series have the feature of I(1). And then, we employed Sargan test in order to determine whether there is endogenous problem of instrumental variables. According to the analytical findings, we have showed that some variables are statistically significant. For example, the variables of rule of law, freedom of opinion, conflicts and property rights are statistically significant. But the variable of religion is not statistically significant in European countries. On the other hand, the variables of rule of law and effectiveness of government are significant in Middle East Countries.

5. Conclusion

This paper is intended to reveal how institutions have an impact on economic performance. Furthermore, we included the variables of conflict and religion effects on economic growth. According to the analytical findings, we have showed that the variables are statistically significant. Institution variables such as property rights, rule of law and democracy increase their GDP per capita in European Countries. And in Middle East, rule of law and effectiveness of government promote GDP. But there is not a statistically relationship between GDP and religion in both groups. As a result, we have obtained the results of the aforementioned approaches and we have confirmed to reveal the coherent findings with both economy theory and applied studies taking part in literature.

Key Words: Growth, Institutions, Conflict, Dynamic System GMM.

JEL Codes: O43, C23, D74.

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Aging Effect on the Public Health Expenditures: A Re-examination

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1. Introduction

There has been a marked upwards trend in total health expenditures over the last four decades, particularly across OECD countries. The share of public health expenditures in total health expenditures has grown more rapidly in real terms, reaching from 60% to 70% (OECD 2013). A similar trend was observed in the share of health expenditures in general government expenses; the share of public health expenditures in general government expenses across EU countries over the last decade increased over 15%, demonstrating the sharpest growth after social protection and social security expenditures (Eurostat 2014).

Ageing, that is, the increase in the share of the population over 40 and 65, is one of the key drivers of the real growth of health expenditures. According to the OECD's (2013) the share of the population over 65 years of age, at 15% in 2010, is expected to reach 29% in 2050.

Our study which stems from this point aims to investigate the effects of the share of elder population as a determinant of public health expenditures for 16 OECD countries over the period 1965-2012. As the methodology, following ARDL procedure of Pesaran et al. (2001) which is employed to examine the long-run relationship, we perform causality analysis through the error correction models.

2. Overview of Literature

The empirical literature on the health expenditures mainly addresses the impact of GDP growth and elder population. The divergent results for OECD countries considerably arise from sensitivity to the selection of sample, methodology etc. Thus, we present Table 1 to arrange empirical studies which examine the determinants of the health expenditures for OECD countries in detail so as to include sample, methodology and results.

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Table 1: Literature on OECD countries

Author	Sample	Method	Result
Leu (1986)	19 OECD countries in 1974	Cross sectional analysis	No significant effect of population over 65 on health expenditures
Hansen and King (1996)	20 OECD countries (1960-1987)	Ordinary least squares (OLS)	No relationship in the long run between GDP and health expenditures
Matteo and Matteo (1998)	Canada (1965-1991)	Pooled time series cross section regression analysis	Main determinants of the health expenditures: per capita income and the population of over 65
Richardson and Robertson (1999)	21 OECD countries (1995 and predicted future data: 2006, 2021, 2036, 2051)	Cross sectional analysis	Small effects of ageing on health expenditures
Dormont and Huber (2006)	France (1992-2000)	Simulation analysis	Raising effect of aging on health expenditures
Palangkaraya and Yong (2009)	22 OECD countries (1990-1995)	Panel data analysis	Weak relationship between age and health care expenditures
Maisonneuve and Martins (2013)	34 OECD countries (2010-2060)	Simple accounting analysis	-The effect of health care on public spending - health care spending influenced by technology, relative prices and exogenous factors

3. Data and Methodology

Our study analyzes the effect of aging on public health expenditures over the period 1965-2012 for 16 OECD countries, namely Australia, Austria, Canada, Denmark, Finland, Germany, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, United Kingdom, United States, which are selected with regard to data availability. The source and the description of the data are presented in Table 2.

Table 2: The source of data

Variables	Source
pe: Public expenditure on health (% of GDP)	OECD Health Statistics 2013
age: Population 40+ (as a share of total population)	OECD Population Statistics 2013

Our methodology leans on several stages which begin with the bounds testing approach analyzing the long-run relationship. A basic advantage of this methodology is

that it enables testing and estimation irrespective of the stationary properties of the series. The testing procedure is based on the conditional error correction representations of the ARDL specification:

Model:

$$\Delta pe_t = \alpha_0 + \sum_{i=1}^p \alpha_{1i} \Delta pe_{t-i} + \sum_{i=0}^p \alpha_{2i} \Delta age_{t-i} + \alpha_3 pe_{t-1} + \alpha_4 age_{t-1} + e_{1t} \quad (1)$$

Following the determination of long-run relationship, we estimate the long-run coefficients in ARDL models. Finally, we examine the short-run and long-run causality via error correction models.

4. Conclusion

According to the results of bounds testing, we find evidence supporting the long run relationship between the public health expenditures and its most common determinant, namely the population over 40 (age) for Austria, Canada, Germany, Norway and United States. Once the long-run relationship is approved, the succeeding stage in the methodology should be the estimation of the long-run ARDL model. Our findings indicate that the effect of aging on the public health expenditures appear to be positive and strongly significant as expected with the exception of US. Following the long-run analysis, we examine the short-run dynamics by testing causal relationship from estimated error correction models for the selected ARDL representations. In this context, we find evidence supporting the causality running from the share of population over 40 to the public health expenditures in both short and long-run for Austria, Canada, Germany, Norway and United States. For those economies, as a policy implication, to weaken the pressure on the budget systems, the government should control the public health expenditures by taking measures against the aging population.

Key Words: health expenditure, aging, cointegration, causality.

JEL Codes: C32, H51, I18.

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The Missing Link: Are Individuals with More Social Capital in Better Health? Evidence from Low-Income Countries

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1. Introduction

This paper offers a new model to critically examine associations between human capital, social capital, and health outcomes within the context of a two-period Overlapping Generations (OLG) model of endogenous economic growth. Basically, individuals with higher level of human capital can build strong social ties, and those individuals who have more robust social networks are less likely to have health problems and are physically healthier. In an attempt to gain a better understanding of broader policy implications, a numerical analysis for low-income countries has been utilised. To that end, we provide a comparison of three main experiments: an increase in the share of public spending on education, social capital-related activities, and health.

2. Literature Review

Results from earlier studies (e.g., Ross & Wu, 1995; Miller et al., 2006) demonstrate a strong and consistent association between social capital, human capital, and health. For example, Ross & Wu (1995) have reported that social capital can act as a moderating factor between education and health outcomes. Likewise, Miller et al. (2006) provide evidence for Indonesia that social capital and human capital could be both a contributing factor to health outcomes. The core idea is that individuals with higher levels of education and social integration tend to live a longer and healthier life than their worse-off counterparts. Or more precisely, highly-educated individuals would develop better social networks and become more socially integrated in a community; but at the same time previous studies, for instance, for the U.S. (e.g., Berkman & Syme, 1979; House et al., 1988; Kawachi et al., 1996; Eng et al., 2002; Lochner et al., 2003; Scheffler et al., 2008) have revealed that individuals who have more robust social networks and community ties are less likely to have high mortality rates and health problems such as cardiovascular disease and stroke than people who are less socially integrated. A number of studies in other OECD countries such as United Kingdom, Sweden, and Finland (e.g., Mohan et al., 2005; Poortinga, 2006; Lofors & Sundquist, 2007; Sundquist & Yang, 2007; Olsen & Dahl, 2007) have also provided reasonably consistent evidence of an association between social capital and health. However, Helliwell & Putnam (2007) hold the view that the extent to which social capital determines health is causally associated with the average level of education. In other words, education level exerts an indirect effect through social

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capital, which in turn shapes health. Considering all of this evidence, while numerous studies have postulated the link between education, social capital, and health outcomes, it seems that previous research has failed to demonstrate any convincing evidence of the connection between them and their collective effect on economic growth for low-income countries.

This paper ties together the various theoretical strands in the literature. The present study makes several noteworthy contributions to the growth literature: To the best of our knowledge, this is the first study which offers a new model to critically examine associations between human capital, social capital, and health outcomes in the context of an endogenous growth model. Secondly, this study establishes a numerical analysis for low-income countries in order to detect the interaction effect between the above mentioned variables. Last but not least, the findings from this study should help to improve policy implications and provide a basis for further research.

3. Conclusion

This paper offers a new model for better understanding the relationship between education, social capital, and health outcomes within the context of a two-period Overlapping Generations (OLG) model of endogenous growth. Fundamentally, individuals with higher levels of human capital and social capital tend to live longer and healthier life than their worse-off counterparts. To be more precise, highly-educated individuals would, in fact, develop better social networks and become more socially integrated in a community. Accordingly, individuals who are more socially connected to community are physically healthier and less likely to have health problems, as discussed earlier.

The paper also provides a comprehensive numerical analysis under a different set of parameter values for low-income countries. To that end, we compare three main experiments: an increase in the share of public spending on education, social capital-related activities, as well as health. According to the findings of the numerical analysis, social capital stock accompanied by higher levels of human capital stock can act as a contributing factor to health outcomes and is conducive to long-run growth in low-income countries yet its effect becomes stronger depending on the magnitude of the key parameter values in the model.

Key Words: Social Capital, Human Capital, Health, Endogenous Growth

JEL Codes: H51, H52, H59, I15, I25, O41

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A Comparative Analysis of Sovereign Credit Rating Methods and Credit Default Swaps

Burak Pirdal¹

1. Introduction

The measurement and evaluation of credit notes of a country especially in the last half century has become quite important and these assessments have become a vital factor for the macroeconomic performance of the countries. In this context, two of the methods that can be applied to measure the credibility of the countries are rating by credit rating agencies and credit default swaps. Both of these methods which have different methodology reflect the credit ratings of countries. In this study a comparative analysis of these two methods is performed and similarities and differences between them has been demonstrated. Also the consistency of the results obtained by these two methods are analyzed, insufficient aspects of the two methods are revealed and a policy suggestion regarding these insufficiencies is proposed.

2. Credit Rating Agencies and Credit Default Swaps

The concept credit rating simply traces back to mid-19. Century and since the international investors need more reliable indicators, it is gaining much more importance in today's globalized world. Thanks to globalizing and deepening financial markets, an investor from a remote, small country can easily give a loan to any entity in any place around the world. However, it is impossible for the creditors to have a perfect knowledge of the borrower's entity. But, in order to have sustainable and reliable financial markets, the capabilities of the borrowers to meet their obligations should be known as perfectly as possible by the creditors. This necessity created an independent market and corporations that operate in this area, which are called Credit Rating Agencies. (CRA)

CRA's not only assess the creditworthiness of the private companies but also of the debt demanding any other entities' like public institutions or governments. In the financial system, different entities can demand CRA's to give them a credit note and they receive loans according to this rating. They make payment to CRA's for the credit rating. Today, credit rating can determine the credibility of a country, accordingly how much interest it will pay and how much credit it can take. Countries with low credit rating receive relatively less loans at a higher rate of interest. Therefore, it is vital for any country to have a high credit note which wants to utilize international funds in favor of its economy. (Balıkçioğlu: 2012)

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Another way of assessing creditworthiness of the entities is Credit Default Swaps². A credit default swap (CDS) is a financial swap agreement that the provider of the CDS will compensate the buyer -who is usually the creditor of the reference loan- in the event of any loan default. This means that the seller of the CDS insures the buyer against loan defaultings. The buyer of the CDS makes a payment to the seller and, receives a payoff if the loan defaults. It was invented by Blythe Masters in 1994. CDSs have existed since 1994. In the event of any default the buyer of the CDS receives compensation which is usually the face value of the loan, and the seller of the CDS takes possession of the defaulted loan. In this paper both methods are analyzed, revealing similarities and differences among them and it is tried to be determined if they are in consistent with each-other or not. Moreover, deficiencies of the two methods are mentioned and a policy implication is suggested.

Tablo-1: 5-year CDS spreads and Credit Notes of the Selected Countries

COUNTRIES	5 -YEAR CDS SPREADS	5-YEAR DEFAULT RISK (%)	CREDIT NOTE BY S&P	CREDIT NOTE BY MOODY'S
Venezuela	1289,90	58,9	B-	Caa1
Ukraine	902,06	45,1	B+	Caa1
Pakistan	775,10	42,8	B-	Caa1
South Cyprus	386,08	29,0	B-	Caa3
Egypt	448,80	27,2	B-	Caa1
Greece	453,10	26,7	B-	Caa3
Lebanon	385,21	24,6	B-	B1
Hungary	231,48	15,5	BB	Ba1
Portugal	182,83	15,4	BB	Ba3
Indonesia	172,97	14,8	BB+	Baa3
India	215,90	14,6	BBB-	Baa3
TURKEY	214,22	14,4	BBB	Baa3
Russia	214,77	14,3	BBB+	Baa1
South Africa	190,32	12,9	A-	Baa1
Kazakhstan	180,71	12,3	BBB+	Baa2
Estonia	49,20	3,5	AA-	A1
Netherlands	32,46	2,9	AA+	Aaa
Swiss	29,80	2,7	AAA	Aaa
Denmark	23,84	2,1	AAA	Aaa
Britain	23,79	2,1	AAA	Aa1
Finland	23,17	2,1	AAA	Aaa
Germany	22,51	2,0	AAA	Aaa
USA	17,52	1,5	AA+	Aaa
Swedish	16,18	1,5	AAA	Aaa
Norway	13,52	1,2	AAA	Aaa

Source:1) S&P Capital IQ Sovereign Debt Report 1th Quarter 2014.

2) <http://www.guvenyayilgan.com/wp-content/uploads/2014/09/Kredi-Temerr%C3%BCT-Swaplar%C4%B1-ve-Kredi-Dereceleri.pdf> , Access: 23,03,2016

² Hereinafter referred to as CDS

As indicated above, although credit notes and CDS spreads are usually consistent, there may be rare adverse situations. Because CDS is more sensitive than the Credit Rating. For example, Kazakhstan's CDS spread is 180.000 as of 19.09.2014. That means protect buyer should pay %1.8 of the debt to but a protection. And South Africa's CDS spread is 190.000 at the same time, and that means protect buyer should pay %1.9 of the debt to but a protection but, South Africa's Credit Rating note at the same period is higher than the Kazakhstan's. The same case is valid for Venezuela and South Cyprus for instance. While Venezuela's CDS spread is well above the South Cyprus, they have the same credit note.

4. Criticism of Both Method and Policy Proposal for Sovereign Credit Rating

In order to break the oligopolistic structure consists of *the big three*³, major powers in the world like European Union, China and Russia can establish their own credit rating agencies. Establishment a global credit rating agency without any nationalism could be another solution. There is also a need for a regulatory authority to rank them. They also should be held accountable in civil lawsuits for wrong credit ratings. Moreover, regulatory authorities should control the CRAs internally. This internal audit is expected to increase the transparency. Also, a central exchange for CDS trades sounds logical in order to make the CDS market more transparent and efficient.

5. Conclusion

In the middle of the 19th century, rating activities emerged to meet the needs of the real sector. CRAs and CDS spreads are two different methods to get an opinion of an entity's creditworthiness. Both have its own methodology and there are fundamental differences between their methods. CRAs give notes to the entities by assessing their experts' analyses and opinions. On the other hand, CDS spreads are data based on transactions in the CDS market. In this paper we shed light on both methodology and conclude that although they have different structures their indicators are not always but usually parallel with each other.

Keywords: Credit default Swaps, Credit Rating, Methods of Credit Rating

JEL Kodu: H00, A10, E00

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Public Debt Management and Borrowing Strategies: Comparison of Turkey and Selected EU Countries' Applications

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1. Introduction

The existence of the dynamics which effect the increase at the government debt stock and, the increasing process of debts and management form have a vital importance at paving the way for absorption of source need. Otherwise, as a result of mistakes which placed in debt management, existing debt stock becomes the reason of new borrowings. For that reason, the debt management has to be used as an economic policy tool which has a structure and dynamism in order to minimize the costs, and realize legal and institutional regulations by estimating possible risks.

Paying regard to cyclical developments and macro-economic balances, is essential in the debt management process. However, as known, the global crisis which is not over yet spread into most EU Countries in a short time period and under the negative cyclical impacts, caused increases in budget deficits as well as risk premiums. Turkey which is not a member of EU, performed differently and positively in terms of debt indicators during this period.

In this study, the effectiveness of debt management strategies as economic policy tools will be evaluated in selected EU Countries (Denmark, Bulgaria, Latvia, Luxembourg and Romania) which have similar debt indicators with Turkey in last ten years and a comparison over the consequences of Turkey's public debt management strategies by analyzing the factors which are effective in determining the debt management strategies.

2. Public Debt Management

2.1. Debt Dynamics

The subject which has priority in terms of debt management is debt dynamics. Debt dynamics can be evaluated in terms of different criteria according to the model which used in different studies. According to an approach which brought by IMF in 2004 and followed by Reddy (2006), and Favero and Giavazzi (2007) uses internal and external debts which are borrowed in a particular interest liability, interest rates, primary balance and central bank finance indicators were used for an open economy which can reach external sources and under a government budget constraint, to evaluate the debt dynamics. (Ryan & Maana, 2014: 7). In 2006, a study on Bangladesh by Islam and Biswas, debt dynamics were determined as change in the total debt stock, vulnerability which is constituted by real interest rate – real growth rate and currency rates and the stability of debt/GDP ratio (Islam & Biswas, 2006: 16).

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2.2. What Is Debt Management, What It Should Be?

Public debt management is making changes in the amount and composition of the government debts in order to support economic policy of a country and protecting the economic balances (Ince, 2001: 327). With this aspect, debt management must provide budget finance with tax revenues and seniorage revenues of the state, by having a principle as borrowing with the minimum cost and least risk level which are possible, being based upon risk analyses and appropriate for macro-economic targets (Hazirolan, 2012: 558).

2.3. Principles of Debt Management and Borrowing Strategies

Debt management basically depends upon the principle of analyzing risks on the debt stock and decreasing the costs to the lowest possible level. In the context of this principle, borrowing policies run with respect to strategic criterions which formed every year with a mid-term scope. Macro-economic balances and cyclical developments are regarded too in the debt management process which starts with the constitution of strategic criterions and continues with realizing the debts (Treasury Department, 2016: 24).

3. Strategic Criterions in Effective Debt Management in Turkey

Strategic criterions; express the general risk and cost targets which are used for bases of debt, cash and risk management. In Turkey, conducting the debt management appropriate for strategic criterion was stated in the "Treasury Department Strategic Plan" which is prepared by the Treasury Department with a projection of five years. The last strategic plan prepared in a form involved 2014 to 2018. In the strategic plan, strategies are determined as; conducting the debt management in the frame of strategic criterions, following a borrowing policy by paying regard to macro-economic balances, compatible with monetary and fiscal policies, sustainable, transparent and accountable, following a criterion borrowing policy by the way of re-exporting of a particular amount of securities, using the re-uptake, change and early repayment transactions effectively in order to managing debt repayment profile and adding the risk management tools into the tools which used in debt management (Treasury Department, 2014).

Mentioned criterions are; realizing the cash internal borrowing mostly with a fixed interest rate and in the currency of Turkish Lira, not internal borrowing with foreign currency and limiting foreign currencies in internal debts, extending maturity over one year regarding the market conditions, keeping sufficient reserves during the year in order to reduce the liquidity risks which possibly occur in the risk and debt management (Yılmaz, 2014: 189).

4. Effective Debt Management and Strategic Criterions in Selected EU Countries

Every single country aims ensuring the economic balance, in the light of several cyclical developments, in the processes of public debt management by determining strategies which enable realizing debt with lower costs and reasonable risk levels. The European Union countries which found themselves in the impact area of global economic crisis, tried to

establish effective debt management strategies with respect to economic conditions as solution offers to the increasing risk premiums of debts and high debt load which they faced, as a result of methods used challenging with that load. However, PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) have reached record numbers in budget deficits and debt stock/GDP ratios. On the other hand, even Germany and France which are strong economies of the Union, still, are not coming up to the Maastricht Criteria regarded to debt stock.

Standing out in the European Union with their debt stock/GDP ratio and being similar with Turkey in respect of this ratio, decomposing from PIIGS countries, Bulgaria, Denmark, Latvia, Luxembourg and Romania, are worth to examine in term of borrowing strategies.

Bulgaria has managed to pull its gross public debt stock-gdp ratio to 13-17% from 20% and managed to hold tight this ratio until 2014 by strengthening its position after the year 2009 which the impact of global crisis become to seem, by comparison to the previous years. Even though Denmark, has lived a significant increase in its gross public debt stock-gdp ratio after the global crisis, however, it has managed to hold the ratio in the level of 40%. Denmark has managed to protect its accurate position in terms of Maastricht Criterion as well as lower than EU averages. Latvia is one of the countries which has seriously suffered from the Global Crisis in terms of government gross debt stock-gdp ratio. However, the most important factor for the powerful recovery and holding the ratio below the 50% despite being suffered from the global crisis, is the permanent lower government gross debt stock-gdp ratio before the year of 2008. Luxembourg also followed a disciplined debt policy before the Global Crisis, held the government gross debt stock-gdp ratio below 10% and experienced increases in that ratio as well as the other selected countries during and after the crisis. The ratio increased to the level of 23,5% which was 7,8% in 2007 and was slowed down after 2013. This ratio was realized as 22% in 2014 and 2015. Romania, since the early 2000's, had followed a debt policy which is compatible with Maastricht Criterion and with an average 20%, while approaching 2008, government gross debt stock-gdp ratio was managed to lower until 12%. This achievement ensured the government gross debt stock-gdp ratio to not to increase higher levels (Eurostat Database).

5. Conclusion

The reasons of not sharing the same destiny with the EU Countries which progressed to the high indebtness levels, of Bulgaria, Denmark, Latvia, Luxembourg and Romania are various. Especially PIIGS countries had reached borrowing revenues with low costs by obtaining confidence of international investors under the umbrella of Euro in a positive atmosphere. The opportunity of borrowing with low costs, was an incentive element to making more public expenditure and cheaply finance the budget deficits with debts for these countries. Regaining the competition lack and growth advantages, these countries frequently devalued their money and when they faced the obligation of conducting the same monetary policy, they had to lay on more internal demand and public expenditures with the justification of maintaining their growth. Since the financial environment was suitable for that, the countries had chosen the way of increasing their debts (Yilmaz, 2013: 76). As a result of similar mistakes in the debt management strategies and late measures, debt stocks became unsustainable.

As seen, every country has different strategic criterions and debt management principles under their special conditions and cyclical developments. These criterions, in order to serve economic balance mid and long term, aim to calculate and follow the effects on debt stock and new borrowings.

Key Words: Public Debt, Public Debt Management, Strategic Criterion

JEL Codes: H6, H63

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Tax Effort in Turkey

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1. Introduction

In the literature, tax effort index is defined as the difference between actual tax ratio and predicted tax ratio of a country in a certain period of time. If this index is higher than 1 it shows that taxes are collected beyond the taxation limit and if this index is lower than 1 it shows that taxes are collected under the taxation limit (Susam, 2015: 293).

This study aims to determine the concept of tax effort and the factors which play a significant role with regard to identifying the concept of tax effort at first. Furthermore, it is tried to determine empirically the variables which affect tax effort in Turkey by using a data set that covers 79 cities (except Tunceli and Ardahan) over the period 2010-2014. According to the results of the empirical analysis, it is determined that export is the main factor which affects tax effort in Turkey.

2. The Concept of Tax Effort

Taxes are the most significant resources which finance basic public services such as education, health and infrastructure. It is seen that governments in developing countries spend much more money than the governments in developed countries in order to fulfill economic development and to increase life standards (Wang et al., 2009: 204). Hence, it is expected that governments which want to carry out more public expenditures increase their tax revenues.

At this point, we face the question of whether it is possible to obtain more tax revenues than the existing tax revenues and thus, the concept of tax effort comes into prominence (Bird & Vazquez, 2008: 56). Determining the tax effort which is defined as the difference between actual tax ratio and predicted tax ratio gives information to the countries about the efficiency of tax system and whether tax system will increase existing tax revenues (Pessino & Fenochietto, 2010: 66).

On the other hand, tax effort can be defined by various variables and it can be different from one country to the other. These variables consist of factors such as tax burden, the ratio of agriculture in GDP, population, openness and efficient tax auditing. Hence, although it is not easy to estimate the tax effort index of a country there are many studies in the literature.

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Pessino and Fenochietto (2010) investigate the variables of tax effort. By using panel data techniques the authors aim to measure the variables which determine tax effort in 96 countries over the period 1991-2006. According to the results of the empirical analysis, it is found that the level of development which is measured by GNP per capita and the ratio of exports and imports have a positive effect on tax effort (Pessino and Fenochietto, 2010).

Kaghazian et al. (2013) try to determine the direction of the relationship between petroleum revenues and tax effort. In this study, the data set of five petroleum exporting countries which are Iran, Bahrain, Kuwait, Qatar and Algeria are used and panel data techniques are employed. The results of the empirical analysis emphasize that there is a negative relationship between tax effort and petroleum revenues and tax effort decreases as petroleum revenues increase (Kaghazian et al., 2013).

3. The Concept of Tax Effort in Turkey

In developing countries like Turkey, enhancing social wealth and macroeconomic problems such as unstable economic growth rates, high foreign trade and budget deficits, the fluctuations in exchange rates and high inflation rates changes the dimension of the presentation of public services and the dimension of public expenditures. This change in existing public expenditures alters the amount and structure of public expenditures both in national and local levels (Çiçek & Yavuz, 2014: 20). In this case, the significance of taxes which are the basic resource of public expenditures increases.

Hence, it is required to determine the tax potential of a country in order to make efficient changes in tax policies and to implement correct policies in the face of increasing public expenditures.

3.1. Data and Methodology

The aim of this study is to determine the variables which affect tax effort in Turkey at the city level. For this purpose, tax effort index for 79 cities in Turkey is calculated for the period 2010-2014. Ardahan and Tunceli are excluded from the analysis because of the inadequacy of the data.

In the analysis, the dependent variable is the tax revenues/GDP. The share of tax revenues collection in GDP was taken, and tax losses and fugitives were ignored. However, tax incentives which are provided to certain cities or regions in order to equalize regional competition and to increase investments are excluded from the analysis. The independent variables are the share of agriculture in GDP, the share of industry in GDP, the share of services in GDP, the share of exports in GDP and the share of imports in GDP (the share of exports in GDP and the share of imports in GDP are openness variables). Population growth rate at the city level is determined as the demographic variable. Tax revenues data is taken from the Revenue Administration and the other data is taken from the Turkish Statistical Institute.

3.2. Empirical Evidence

In this analysis a data set which belongs to 79 cities over the period 2010-2014 is used. Hence, the model is estimated by employing panel data techniques. According to the results of the estimated fixed effects model, exports/GDP (1% significance level) and imports/GDP (10% significance level) are statistically significant. While exports/GDP has a positive effect imports/GDP has a negative effect on tax effort. The reason why the other variables except exports and imports do not have any effects on tax effort may stem from the fact that the level of the underground economy is high in Turkey. Furthermore, if the model is estimated by using tax allocation instead of tax effort different results can be obtained.

4. Conclusion

Because of the inadequacy of private sector investments public sector investments are highly important for economic growth and development especially in developing countries. Public sector investments are financed by tax revenues. Hence, determining the factors which affect tax revenues and tax effort in developing countries will reveal whether public investments that play a critical role in economic growth and development can be financed by taxes or not.

In this study, the factors which affect tax effort in Turkey are empirically analyzed by using a data set which covers 79 cities over the period 2010-2014. According to the results of the empirical analysis, it is determined that the main factor which affects tax effort in Turkey is exports. This result may stem from the fact that the level of underground economy is high in sectors other than the foreign trade sector. Moreover, if the model is estimated by using tax allocation instead of tax effort different results can be obtained.

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Fiscal Anaesthesia and Changing in the Fiscal Limits of Taxation: Review to Laffer Curve

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1. Introduction

Fiscal anesthesia is defined as the fulfillment of tax and similar financial obligations without being felt by the taxpayer. States prefer indirect taxation with fiscal anesthesia, because of the possible reactions to direct taxation. The fiscal limits of taxation are expressed in the literature with the help of the figure known as Laffer Curve which presented by Artur Laffer in 1974. This study is designed to reveal the existence of two separate Laffer Curves² which are created separately: one for objective tax burden and one for subjective tax burden effected by fiscal anesthesia. For this purpose, objective and subjective tax burdens for Turkey³ were determined separately and Laffer Curves were created for both. Thus, at the expense of empirical findings, a new view of the Laffer Curve is revealed.

2. Difference between Objective and Subjective Tax Burden: Fiscal Anesthesia

Financial anesthesia refers to the fulfillment of financial obligations without being noticed by the individual (Ay, 2014: 162). It is especially important for the state which wants to create a productive tax system, that the burdens of taxes are not being felt. Because, if the individual feels completely and becomes aware the taxes paid, he or she reacts to the increased tax burden. Thus, it causes legal or illegal ways to get rid of the tax burden. (Aktan at all, 2012: 187-188). This will force public financial management who wants to increase tax revenues. Political administrations in voting anxiety prefer tax policies that will not attract the reaction of individuals in order to avoid the loss of votes especially due to taxes. For this purpose, they prefer to focus on the consumption tax, which is easy to conceal into the price, rather than the income and wealth tax, which is very easy to feel.

It is possible to define financial anesthesia as the positive difference between objective and subjective tax burden (Demir, 2013: 3). The ratio of the total tax paid from income, wealth and expenses by the individual to the income is called the objective tax burden.

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² For detailed information about the Laffer Curve, please see: A. B. Laffer (2004). "The Laffer Curve: Past, Present and Future", *Background*, 2004/1765.

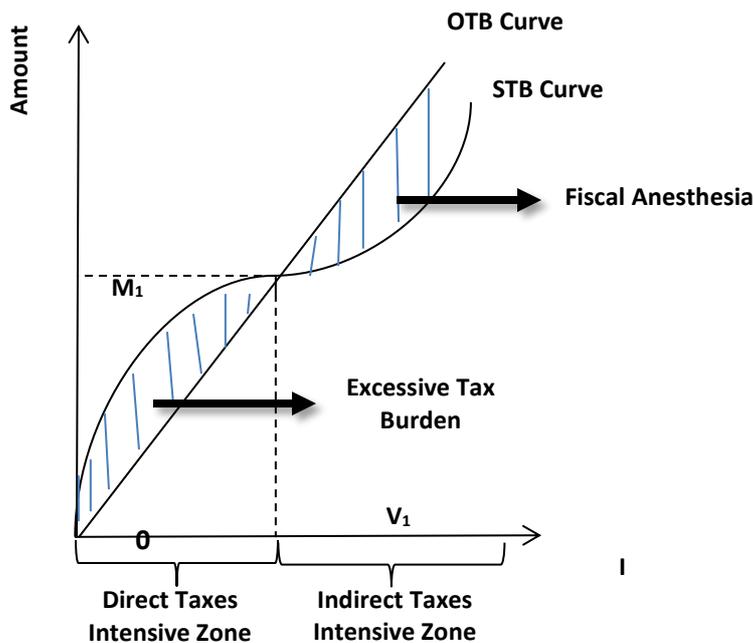
³ This research was carried out within the framework of project number 14HIZ.DES.58, which was supported by the BAPK Unit of Afyon Kocatepe University and completed in 2015.

The burden of tax is the subjective tax burden on which the taxpayer thinks or feels that he is paying taxes.

In this study, taxpayers' objective and subjective tax burdens were determined within a certain period of time in Turkey and the difference was expressed as the dimension of financial anesthesia. According to the results obtained, the objective tax burden in the whole country is approximately 28%. The subjective tax burden measured by the index developed by me in the same period is approximately 23%. Therefore, fiscal anesthesia is approximately 5% across the country. This value indicates that taxpayers do not feel about 18% of the tax they pay.

2.1. Graphical Design of Fiscal Anesthesia

It is possible to express the formation of fiscal anesthesia with the help of the following graph.



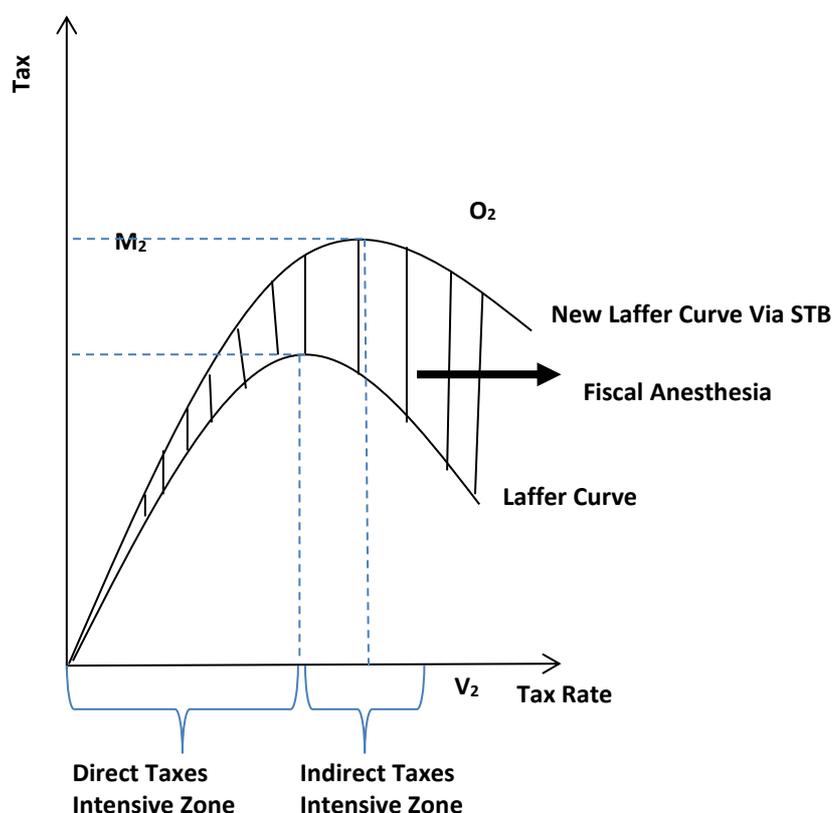
Graph 1: Formation of Fiscal Anesthesia

In Graph 1, the objective tax burden is shown by the OTB curve and the subjective tax burden is shown by the SVY curve. Since the direct tax is predominant in the interval of $0V_1$ and share of indirect taxes increases, the STB curve increases by decreasing and rises above the OVY curve. The felt tax burden on this region is higher than the objective tax burden, which leads to an excessive tax burden (**Excessive Tax Burden = STB - OTB**).

After V_1 , indirect taxes have more share in tax revenues and the STB curve turns into an multiplying curve and goes under the curve of OTB. Since the tax burden felt (STB) in this region (where the indirect tax is predominant) is less than the objective tax burden (OTB), fiscal anesthesia will be as much as the difference between the objective tax burden and the subjective tax burden. (**Fiscal Anesthesia = OTB - STB**).

3. Change in Laffer Curve due to Fiscal Anesthesia

The change in the Laffer Curve due to financial anesthesia is shown in Graph 2.



Graph 2: The Changing in the Fiscal Limits of Taxation due to Fiscal Anesthesia

In Graph 2, OV_1 is the region where the direct tax is concentrated and V_1V_2 is the region where the indirect tax is in the density. The point O_1 is the point at which the maximum tax revenue (M_1) is obtained according to the Laffer Curve and the point V_1 represents the optimal tax rate.

When the state wants to increase its total tax revenues, it increases indirect taxes. Because, by increasing direct taxes, it is very difficult to achieve this. As the share of indirect tax in total tax increases, although the objective tax burden of the individual increases, the subjective tax burden does not increase at the same rate. After point V_1 , the average tax rate increases unimpressively. Because, the share of indirect taxes increases and these taxes are hidden in the price. In this way, the state will increase its

tax revenue as amount of M2-M1. Thus, new maximum tax revenue (M2) and new optimal tax rate (V2) are obtained at O2 point. In other words, the fiscal limit of the tax capacity has changed and shifted from O1 to O2.

4. Conclusion

With this research, fiscal anesthesia has been able to formulate and measure with a different perspective in public finance literature and it has been presented to evaluation of public financial scientists. As of the study period, fiscal anesthesia is approximately 5% in Turkey. When examined by various occupational groups, this difference becomes even more apparent. However, it should be noted that the measurement of the subjective tax burden to be performed in order to measure fiscal anesthesia may vary in the period and place of the study. Therefore, this result we have obtained is a result of rotation and is not suitable for generalization. Fiscal anesthesia may vary in terms of different regions and times.

Another important contribution of the study to the public finance literature is that it refers to the changes that may occur in the fiscal limits of taxation (Laffer Curve) due to fiscal anesthesia. How the fiscal anesthesia changes the Laffer Curve is graphically designed and presented to the discretion of the public financial scientists.

Although studies in the field of financial sociology and tax psychology have gained momentum in recent years, they are not yet sufficient. I hope that the researcher will be able to shed light on the work to be done later. There is no doubt that such studies should be carried out in various countries and thus allow comparison of objective tax burden as well as subjective tax burden.

Keywords: Fiscal Anesthesia, Subjective Tax Burden, Limits of Taxation

JEL Codes: H21, H30, H29

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A Comparative Analysis of Public Expenditures in Turkey: 1927-1950 and 1980-2000

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1. Introduction

The paper presents a comparative static analysis of public expenditures in Turkey in two distinct periods. The two periods under focus are selected according to their wide differences in terms of economic policies designed and implemented in each of them. The first period that covers almost twenty years, from 1927 to 1950, establishes itself as the founding era of the Turkish Republic; whereas the second period which also covers another twenty years, from 1980 to 2000, is known as the era in which Turkey had been persuaded to substitute open-economy policies imposed by globalization for its own protective developmental policies that had been implemented till then. Thus by comparing public expenditures allocated to economic and social areas in two distinct periods it is aimed to reflect sharp differences in policies implemented in each period in terms of their relations to developmental efforts of the country. It is also stressed in the paper that significant changes observed in the pattern of public expenditures in selected periods display the changing role and position of the decision makers in two different periods. It is observed that whereas the policy makers in the first period were relatively autonomous, it seemed that the decision makers in the second period were more under the influence of pressure coming from advanced economies. Thus, it is demonstrated in the paper that against tremendous efforts that had been made in the first period of the Republican era in the way of achieving economic development, the Washington Consensus rules and policies introduced by John Williamson in 1989 inhibited politicians in the way of introducing and implementing proper strategies for development in the second period.

2. 1927-1950 Period

As the result of great effort Turkey had made important achievements in terms of economic development during the initial period of the establishment of the nation state and building up of national economy. The achievement obtained by etatism, in other words state capitalistic policies of the 1930s had paved way for industrial capital accumulation. National expenditures throughout the period appropriated to both capital formations for economic purposes and education and health for social purposes are compared to those in period 1980-2000.

It is natural that the structural pattern of goods and services provided by the public sector depends on the level of economic development. It is also natural that the demand for public goods and services shapes according to the pace of economic development. In case where rapid development is aimed the state necessarily concentrates on such public expenditures like infra-structure, education, and health, etc. which are of great importance for productivity increase. Provision of such services is also crucial in achieving better income distribution. (Önder, 1974:109).

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3. 1980-2000 Period

The main policy of the period had been shaped according to the Washington Consensus which had been put forth by John Williamson in 1989. The basic rules of the Washington Consensus are as follows (https://en.wikipedia.org/wiki/Washington_Consensus):

- The scope of the public sector would be narrowed;
- Tax burden on private sector would be lowered;
- Trade would be privatized and there would be no public interference;
- Property right would be empowered;
- Privatization would be completed at once.

It may be imagined that countries which had complied with all legal regulations of Washington Consensus like privatization, liberalization and reregulation of factor markets, easing international financial transactions, etc would have been successful in becoming a middle income economy. Yet it has not been possible for such countries to reach high income country level (Ohno, 2009:26) besides, globalization has constituted a radical ban in the way of increasing public expenditures towards economic goals.

4. Conclusion

It is observed that whereas the policy makers in the founding era of the Turkish Republic were relatively autonomous, it seemed that the decision makers in the second period have been more under the pressure coming from advanced economies. Thus, it is demonstrated in the paper that against tremendous efforts that had been made in the first period of the Republican era in the way of achieving economic development, the Washington Consensus rules and policies introduced by John Williamson in 1989 inhibited politicians in the way of introducing and implementing proper strategies for development in the second period.

Key Words: Public Expenditure, Education Expenditure, Globalization

JEL Codes: H5, H52,

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Comparison of Performance-Based Budgeting and Performance-Based Financing Practices: The Sample of Higher Education

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1. Introduction

The performance-based budgeting system, which is closely related to the performance levels of public institutions, is regarded as one of the new budgeting approaches. However, the collections made by prioritizing the performance of institutions can be made not only by means of this budgeting but also by using the performance-based financing method. Upon examining the finance literature, although there are similarities between these two modern appropriation mechanisms that are generally used simultaneously, there are also significant differences. Similar and different aspects of performance-based budgeting and performance-based financing methods are emphasised within the scope of this study. Furthermore, it is desired to make their ways of use in the field of higher education clear. Thus, examples are given from higher education service in order to concretize the subject.

Recently, the difference between performance-based budgeting and performance-based financing has been emphasised in the article of Demirbaş published in 2009. The dimension of the relation between the concepts is examined in a more detailed way in the present study. In this direction, the aim of this study is to compare the methods of performance-based budgeting and performance-based financing in the context of higher education and clearly show the aspects that differ from one another.

2. Comparison of Performance-Based Budgeting and Performance-Based Financing Methods

As a concept, the budget that first emerged in western countries and turned into its present state of use as of the 17th century (Tüğen, 2014:1) has been used in various ways until today. Budgeting system that varies by a state's economic, social and political conditions is divided into two main groups, being traditional and modern.

Performance-based budgeting, which is regarded to be among modern budgeting systems and in which the resources allocated to institutions are dependent on measurable results (OECD, 2008:3), is a method that is preferred in many countries. In our country, this budgeting system started to be implemented with the Public Finance Management and Control Law No. 5018 accepted in 2003.

In addition to performance-based budgeting, another application that attracts attention to the relation between public appropriations and institution performance is performance-based

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financing³. These two appropriation mechanisms, which are mostly used synonymously because of the lack of a precise definition that separates the direct and indirect effects of the practices regarding financing in the literature, actually distinctly differ from each other. Thus, in his study, Demirbaş (2009:84) emphasises that this confusion will be eliminated by naming the performance-based financing method the *direct performance budgeting*.

Upon evaluating in terms of its similar aspects first, both methods include regulations related to how public institutions will use their budgets more effectively and how they will act performance-based in this effective use. However, the first point that must be emphasised in terms of different aspects is that the performance-based financing method is closely dependent on single indicators and that it is closely related to the performances of public universities (Burke et al., 2000:3). According to the performance-based financing method defined as a percentage of the appropriations allocated subject to the evaluation of the performance criteria defined (Jordan and Hackbart, 1999:74), payment is made over the ratio that each performance indicator has when the pre-determined performance targets are achieved. Thus, appropriation transfer is ensured by means of a defined formula (Friedel et al., 2013:3).

The performance-based budgeting system is defined as the process of preparing budget documents with the pre-defined performance measurements (Jordan and Hackbart, 1999:74). In this method, performance has an indirect effect on the appropriation transfer. Factors apart from the corporate performance may also become a significant factor, and performance indicators are only one of these factors (Burke, 1998:6). More clearly, performance indicators are among other factors in order to affect financing decisions in this budgeting system. Furthermore, performance information is wider in the performance-based budgeting system and performance indicators are prepared in a more comprehensive way. Whereas, the number of indicators may be quite limited in the performance-based financing application. The differences at the performance level are reflected on financing and it provides a corporate competition environment.

In terms of higher education service, only a certain percentage of the total budget of universities is allocated in countries applying the performance-based financing method, taking into consideration the limited number of output indicators such as the number of graduates, the number of articles published in indexed magazines, the number of projects, etc. However, performance-based budgeting includes all of the budget of higher education institutions. Nevertheless, higher education institutions may act in a more flexible way when determining their performance targets in the performance-based budgeting method (Sanford and Hunter, 2011). Thus, each university can determine its individual indicators in line with its mission and vision. Whereas, in the performance-based financing method, payments are made according to the performance targets determined between higher education institutions and the government, and standard mutual performance indicators are prepared between universities.

In addition to this information, the performance-based financing method focuses on the stage of distributing the appropriations allocated to universities, while the performance-based budgeting method focuses on the stage of budget preparation (Burke, 2002). In the performance-based budgeting method, a higher education institution cannot receive more appropriation even if it shows more performance than equivalent institutions. However, there is competition between institutions in the performance-based financing method (Burke,

³ It is mentioned as performance-based funding and performance financing in the international literature. The concept of performance-based financing has been preferred in the study while translating into Turkish.

1998:6). Furthermore, the performance-based financing application is more transparent. In this method, the connection between the results and resources is open but not flexible. In other words, a university cannot get full appropriation if it fails its relevant performance target. In contrast, the relation between the results and resources in the performance-based budgeting application is not open but flexible.

Upon examining in terms of practitioners, while appropriations for universities are determined in the performance-based budgeting system, rule-makers or managers can be given more authorities (Burke et al., 2000:3), and they can focus on factors other than performance (Demirbaş, 2009:84) while there is no such thing in the performance-based financing method. The performance exhibited by higher education institutions is all that is taken into consideration.

The appropriation transfer mechanisms of both methods are different. Performance-based financing is divided into four sub-groups being performance agreements, appropriations based on performance indicators, competitive financing and result-based payments. However, the performance-based budgeting method is divided into three groups being the model based on strategic planning, model turned into the budget format and model based on the performance contract.

3. Conclusion

In the comparison of the performance-based budgeting and performance-based financing methods, it is first understood that both methods have quite different aspects both in terms of practice and theory. The presentation of such a difference may have a determining role for public appropriations to be made based on the performance exhibited especially by higher education institutions because payments made based on the performance of higher education institutions accelerate the competition between universities and encourage research and development activities. Eventually, the increase in the scientific capacity of a country is supported.

Performance indicators are an effective factor in both methods. However, while it is an indirect factor in performance-based budgeting, it is a direct effective factor in performance-based financing. Thus, the differences between the concepts increase as budget modelling moves away from the basis of performance in resource allocation. Consequently, it is expected that the study will contribute to the literature.

Keywords: Performance-Based Budgeting, Performance-Based Financing, Higher Education Financing

JEL Codes: I22, I23, H61

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Citizens Budget and Evaluating Citizens Budget in Turkey

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Osman Geyik²

1. Introduction

Citizens Budget has become an important document to increase citizen involvement in budget process and to support transparency and clarity principles. As the citizens know where and what the government expenditure are, the ratio of involvement to the following budgeting process will increase.

Public Finance Management and Control Law with issue number 5018 classifies budgeting process into three categories such as financial transparency, accountability and accountability responsibility and performance auditing. From this point of view as the importance of budget transparency is emphasized, it can be concluded that transparency provided only for the experts is insufficient and citizens should be able to access general information and data. Therefore, in addition to documents with general budget information, it is important to form a simple and clear citizen budget for budget transparency so that the citizens can understand the general concept.

In this study, citizen budget concepts, importance and development of citizens budget are considered and citizens budget in Turkey is evaluated.

2. Citizens Budget Concept

Citizens Budget aims to provide citizen involvement in the budget process. Citizens Budget is a document that enables to share the budget with public opinion in a transparent, clear, and understandable way and thus increasing the involvement of citizens to the budget process. As public opinion on expense items in budget which directly affect citizens are included, citizens budget becomes more feasible. Involvement of citizens in budgeting will speed up democratic development process and thus increase transparency and accountability levels (Şeker and Beynam, 2013: 221-222).

Citizens Budget is a document that summarizes fundamental budget information. The document is a report that is simplified in terms of format and language so that the citizens can understand this document. The citizens desire an explanation for what the government has done on their behalf by asking democracy based questions. Primary beneficiary of Citizens Budget document is the citizens. Citizens Budget is a multi-purpose document that aims to increase current information of citizens on what the government actions are and what has been done to develop involvement to government activities (IBP Citizens Budget Guide, 2012: 9).

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3. Development and Importance of Citizens Budget

In the last 10 years, there are important developments in the financial management of the countries to publish Citizens Budgets. When 2012 data of International Budget Partnership (2012) that aims to measure budget transparency levels of countries with Open Budget Index is considered, it can be seen that 26 countries among 100 countries in the survey publish citizen budgets. These countries include high income countries such as Norway and New Zealand as well as middle income countries such as India, Croatia and Ghana (Şeker and Beynam, 2013: 223) . 2015 survey data evaluated 102 countries under this scope and it can be seen that 54 countries have published citizen budgets (IBP Full Report, 2015: 29). When the reports are evaluates, the change between 2012-2015 is striking.

Publishing a Citizens Budget guide enables to explain government budget aims and related budget talks using supplementary material such as press releases and internet pages in a simple and fluent language. It is vital that the information about the taxes collected by the government, government debts and expenditures are provided to the citizens (Petrie and Shields, 2010: 3).

4. Evaluating Citizens Budget in Turkey

Open Budget Survey conducted five times between 2006-2015 and related Open Budget Index publishes a report for all the countries included in the survey. The report published for Turkey made suggestions that citizen budget should be produced and published for transparency and development of public involvement (IBP Country Report, 2015: 2-3). Citizens budget concept has been first mentioned in Public Finance Management and Control Law issue number 5018, yet until 2017 there has not been any initiative. First work related with citizen budget concepts is published in 2017 under "Citizens Budget Guide". Since the Guide is the first application there are certain insufficient points in terms of content and scope, it can be considered as an important step in Turkish Budgeting process. This citizens budget document contains macroeconomic objectives as well as education, health, social assistance, investments, Research and Development, tourism, real sector supports, fees, tax incomes, tax expenditures and incentives and this documents presents data and objectives for the above mentioned subjects. Yet, citizens budget objective definition and budget process explanations are not provided. Including these explanations and terms in a field that requires economic literacy is important for the citizens to internalize the document and provide budget involvement. If we evaluate in a more specific way, Tax Amnesty Law issue number 6736 that become effective in 2016 is important in terms of collected income as well as expenditures, yet this data is not included. As public incentives for real sector are included sectoral performance objectives are excluded as well as employment, energy efficiency, production and consumptions subjects which can be evaluated as shortcomings of citizen budget guide. Additionally, if political processes and initiatives are included, citizen budget can be more meaningful (Vatandaş Bütçesi Rehberi, 2017).

5. Conclusion

"Citizens Budget" concept has become an important arguments in the last few years. Thus, the document has become an important sign of financial transparency as well as incentive for public involvement in budget process. In this context, it can be seen that until 2017, the proof

for any citizens budget cannot be observed in Turkey. Although prepared and published first citizens budget covers economy in a broader sense, the document is insufficient in terms of performance objectives data under sectoral scope. As macroeconomic indicators that are important for citizens are included, employment as the most important aspect of this subject is excluded from the document. Additionally there is a need for glossary of terms to explain economic terms or concepts other than budget definitions. Lastly, when citizens budget concept is explained to the citizens, it will be easier to understand this budget documents.

Keywords: Budget ,Citizens Budget, Open Budget Index

JEL Codes: H61, H11, H69

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Productivity-Efficiency-Effectiveness in the Public Sector: Theoretical Discussion

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1. Introduction

The continuous evolution of the modern state transforms the public organization and the public services. After 1980, governments targeted a state which reduces the government enterprise with "new right" politics. In the post 1990 period when Post-Washington Consensus and governance has dominate, there is a process in which the government acts together with the market actors and re-remember the "regulatory" role of the state and its institutions for safety of the market. In this context, market-based concepts of "efficiency-effectiveness-effectiveness" are frequently used in public finance, public administration, and economics. However, although they have different definitions and formulations, there are mistakes both in Turkish and foreign literature about use of these concepts. In this study, it is aimed to make the theoretical discussion about these performance criteria, to explain the differences between them and to determine usage mistakes of the concepts. The questions investigated in this context are as follows: (1) How productivity, efficiency and effectiveness are defined and what are the differences between them? (2) What are the mistakes made especially in legal texts in the use of performance criteria? In the direction of these research questions, the study is organized into three sections. In the first section, the input, output and outcome terms which are necessary to define the performance criteria will be defined by giving examples from the sectors where the public provides goods and services. Then the connection between these terms will be explained. In the second section, productivity, efficiency and effectiveness which are the concepts of public sector performance will be explained by theoretical and measurement technique and the differences between them will be emphasized. In the third section, the problems that may be encountered in measuring the performance of the public and the misuse of the concepts will be given.

2. Terms For Definition Of Performance Criteria

The difference between the performance criteria is explained by three terms (Mandl, Dierx & Ilzkovitz, 2008: 2; Batare, 2012: 174):

2.1. Input

In terms of public sector, sources and the expenditures which are used to produce and provide public goods and services are the inputs (Hobson & Wilson, 2002: viii).

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2.2. Output

While expenditures for public goods and services are considered as an input, public services are considered as output (Pratt, Katzev, Ozretich, Henderson & McGuigan, 1998: 3; Mandl et al., 2008).

2.3. Outcome

The outcome indicators are the final impacts targeted for the different stakeholders of the process of production/ delivery of goods and services (Webber, 2005: 114; Verdegem, Stragier & Verleye, 2010: 228). The outcome indicators should be linked to the objectives of the public policy.

3. Public Sector Performance Criteria

3.1. Productivity

Productivity is defined as increasing output per input (production factors) through division of labor or technological development.

3.2. Efficiency

The most general use of efficiency in the economic literature is to produce more output with a fixed amount of input or use less input to produce the same amount of output (Afonso, Schuknecht & Tanzi, 2006: 9; Codagnone & Undheim, 2008: 11).

3.3. Effectiveness

Effectiveness is a performance criteria that indicates the success of inputs used in a particular sector, to achieve long-term and final objectives for that sector (Codagnone & Undheim, 2008: 11; Aubyn, Garcia, Pais & Pina, 2009: 55).

4. Problems in Measuring Public Sector Performance and Misuse Of The Concepts

4.1. Problems in Measuring Public Sector Performance

- The calculation of the market value of public sector output is very difficult, because public often provides services with externalities such as justice and defense (Mihaiu, Oprea & Cristescu, 2010: 137).
- In sectors where the public provides service, a single outcome indicator is not sufficiently comprehensive.
- The outcomes of public services are influenced by many external factors outside the production process. It is difficult to detect and measure these external factors.

4.2. Misuse Of The Concepts

- The concept of "energy efficiency", which means to use energy resources without wasting, has taken place in Turkish literature as "energy productivity" (Zengin, 2011: 17).
- The concepts of "effective, economic and productive" are used many times by referring to the concepts of "efficiency, economy and effectiveness" which have been reduced to "3E" in the 5018 Public Financial Management and Control Law No. 5018 and The Law on the Court of Accounts. However, it is not clear that which concept is translated into which one (Zengin, 2011: 32).

4. Conclusion

With the paradigm shift towards the activation of the state in the provision of goods and services, focusing on public service outcomes, effectiveness and effects on the citizens has been targeted. All these changes in the nature of performance measurement and management require examining public sector performance. While delivering goods and services, the performance of the public in achieving policy objectives and resource use is measured by correlation between the expenditures and the outcome indicators. Although there is not a sharp distinction between the concepts of efficiency and effectiveness which are most commonly used in public sector performance in the literature, it is seen that there are significant differences in definition and measurement technique. This difference is also seen in budgeting systems. All around the world, performance-based budgeting was adopted by many countries (UK, Switzerland, New Zealand), including Turkey. The management of limited public resources to achieve the desired results at the social level is aimed with outcome oriented budgeting. Although these performance criteria, which are often used interchangeably in Turkish and foreign literature, show similar conceptual and mathematical similarities, attention should be paid to their meanings and especially their usage in legal texts.

Key Words: Public Sector, Performance, Productivity, Efficiency, Effectiveness.

JEL Codes: H0, H50, H83

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Westminster Model in Supreme Audit and Example of National Audit Office of United Kingdom

Ökkeş YÜCEL¹

1. Introduction

The task of supreme audit institutions, in general, is to audit public revenue and public expenditures. The structure, function and the status of the supreme audit institutions may vary from country to country due to their respective historic development, political systems, culture, language and regional affiliations. Today, supreme audit institutions in the world are grouped as westminster model, judicial model and board model. Supreme audit institution of Turkey uses the judicial model which is generally used in Southern European Countries. The board model is generally used in Northern European and Asian Countries. The westminster model is used not only in the United Kingdom but also United States, Canada, South Africa, India and China.

While the judicial model and the board model can be examined under one title, the Westminster model contains differences in many directions. The United Kingdom National Audit Office is one of the leading supreme audit institutions in the world and the Westminster model has spread to the world from the United Kingdom. The aim of the study is to examine the westminster model in the context of United Kingdom National Audit Office.

2. Models of Supreme Audit Institutions

Accountability for the use of public funds is a cornerstone of good public financial management. Supreme audit institutions are the national bodies responsible for scrutinising public expenditure and providing an independent opinion on how the executive has used public resources. The four objectives of public sector auditing are to promote: (1) the proper and effective use of public funds; (2) the development of sound financial management; (3) the proper execution of administrative activities; (4) the communication of information to public authorities and the general public through the publication of objective reports. These fundamental objectives guide the work of all SAIs but several different public external audit models exist around the world (DFID, 2004).

3. History of the National Audit Office of the United Kingdom

In the United Kingdom, the earliest surviving mention of a public official charged with auditing government expenditure is a reference to the Auditor of the Exchequer in 1314. The Auditors of the Imprest were established under Queen Elizabeth I in 1559. It was not until the 1860s that the first major steps towards proper financial accountability to Parliament were taken. The results of investigations of the supreme audit institution of the United Kingdom are

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considered by a dedicated parliamentary committee, the Committee of Public Accounts (PAC), established in 1861 (NAO, 2017a).

4. Legal Base of the National Audit Office of the United Kingdom

With the National Audit Act, which has entered into force in 1983, the National Audit Office of United Kingdom took its present form. The Government Resources and Accounts Act 2000, the Companies Act 2006, the Budget Responsibility and National Audit Act 2011 and the Local Audit and Accountability Act 2014 constitute the legal basis for the structure of the National Audit Office of United Kingdom (NAO, 2017a).

5. Administrative Structure of the National Audit Office of the United Kingdom

National Audit Office of United Kingdom has two offices. The head office is located in London and its regional office is in Newcastle (NAO, 2017b). The Comptroller and Auditor General is appointed by Her Majesty the Queen as an Officer of the House of Commons. He is appointed for a single non-renewable term of 10 years, and can only be removed from office by the Queen on an address by both Houses of Parliament. The Comptroller and Auditor General has extensive statutory rights of access to information held by a wide range of public sector organizations (NAO, 2016a:12). There are a total of 796 employees working permanent (NAO, 2016b:12). National Audit Office of United Kingdom is a relatively small organisation with a net resource requirement of some £64.5 million in 2015-16 (NAO, 2015:18).

6. Audit and Other Tasks of the National Audit Office of the United Kingdom

There are two main purposes of examining the public revenues and expenditures of supreme audit institutions (NAO, 2016a:7) which are an integral part of the institutional framework of democratic systems (Talbot and Wiggan, 2010:55). The first is to present the results of the audit to the parliament as a report and the second is to protect the taxpayers' interests during the public expenditure by governments (NAO, 2016a:7). In carrying out these aims, it publishes reports, documents and similar outputs on a very wide area in order to fulfill its legal responsibilities or to carry out its strategies. The activities of the National Audit Office of United Kingdom consist of financial audit, performance audit, local audit, investigations, support to parliament and international activities (NAO, 2016c:20-22).

7. Conclusion

In the National Audit Office of United Kingdom, several legal amendments have been made in the area of administrative structure, auditing and non-auditing tasks in order to keep pace with the needs of the times. The absence of binding constitutional provisions while making these legal changes has opened the way for these radical changes to be made. National Audit Office of the United Kingdom has been one of the first practitioners of many innovations in the context of supreme audit institutions.

The performance audit, which emerged as a new sense of auditing, has come to the fore in the 1960s by some academics and parliamentarians in the United Kingdom. The statutory performance audit came into force in 1983 with the National Audit Act. And Performance Audit has passed the development process of about 60 years in the United Kingdom.

The task of the supreme audit institutions, in general, is to audit public incomes and public expenditures. In addition to auditing, National Audit Office of the United Kingdom is supervised by other institutions such as University of Oxford, Financial Reporting Council, RAND Europe.

Key Words: Supreme Audit, Public audit, Judicial model, Board model, Westminster model

JEL Codes: H83, M42, K13

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Evaluating Empowered to Council of Ministers by Article 73/4 of the Constitution in terms of Legality Principle of Taxation

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1. Introduction

The authority to amend related to certain elements in taxation and within the minimum and maximum limits prescribed by law has been granted to the Council of Ministers by the special provision in Article 73/4 of the Turkey's Constitution. A concrete examination of the scope and use of authorizing the Council on taxation is important for the assessment of "legality principle of taxation" and "no taxation without representation". The purpose of this study is examining situations in which the granted authority to the Council of Ministers in the field of taxation is used and its scope. Additionally, discussing the necessity of this authority in Turkey by comparing with various countries' constitutions is aimed in this study.

In this context firstly, the meaning of the legality principle of taxation will be explained, and the reasons of empowering the Council of Ministers on taxation and the qualification of its decisions will be presented in this study. Secondly, the use of Council of Ministers' decisions related to exemption, exception, reduction and rate of tax will be examined in detail. And finally, the necessity of empowered the Council of Ministers in the field of taxation will be evaluated in Turkey in today's conditions.

2. The Meaning of the Legality Principle of Taxation and Its Appearance in Various Countries

The fundamental of "legality principle of taxation" which is the most important constitutional taxation principle is based on "no taxation without representation". The meaning of the legality principle of taxation is that taxation power belongs to the legislative body composed of representatives of the people within the framework of the principle of separation of powers in contemporary democratic countries (CTPG, 2006: 9). According to this, legality principle of taxation lead not giving any power of discretion in the field of taxation to executive body and not allowing any arbitrary treatment as a rule. For this reason, there is no provision related to any form of delegation of taxation power to Council of Ministers or Government in accordance with "no taxation without representation" principle and "legality principle of taxation" (Gerçek vd., 2014).

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3. The Reasons and Qualification of Empowering the Council of Ministers on Taxation

The authority for making regulations is granted to Council of Ministers to compensate for erosion created by inflation in our country, to steer and affect technological developments, investments and employment in the short term because the field of taxation is a tightly connected area of economic conjuncture (Güneş, 2008: 14). The reasons of this provision are "to prevent the fall of tax burden due to the effect of inflation on exemptions and exceptions" (Danışma Meclisi, 2011: 145) and "bringing flexibility and promptness for intervention in the economy to be effective and quick" (Palamut, 2002: 223).

The Council of Ministers has been empowered to make amendments for some fundamental elements of tax (exemptions, exceptions, reductions and rates) by article 73/4 of the Constitution and thus legality principle of taxation has been stretched. According to this, the Council can only make regulations in situation which is empowered within the limits set by law. Therefore, the authority granted to the Council of Ministers is both conditional and limited.

4. Scope and Use of Council of Ministers' Decisions in Turkish Tax Laws

The number of regulations regarding empowered of the Council of Ministers in Turkish tax laws is increasing day by day. The Council has been granted the authority to amend at 107 different articles of 25 tax laws in recent legislation. 89 of these articles include only empowered the Council of Ministers, but the other 18 articles include both empowered the Council and arrangement for updating according to the revaluation rate. Moreover, the number of the authority for making amendments given The Council between the years of 1971-2002 is 476, but the authority given The Council between the years of 2003-2017 periods is 259. As shown, the decrease period in the inflation rate in our country after 2003, the need to use the authority of The Council is less.

After the article 73/4 of the Constitution entitles the Council of Ministers to make amendments to the "exemption", this authority in the tax law has been used 10 times by 4 different articles. The authority has granted to the Council related to "exception" in 7 different articles of 5 tax laws. This authority in the 3 articles has never been used. The authority in the 2 article was used only once, and then updated with the revaluation rate. The authority in another article was used twice a year, and never used later. The authority in another article was used 5 times and the customs gates for exception were recognized with these. This most used authority is also exceeded in terms of component and limits mentioned in the constitution.

The authority granted to the Council of Ministers in 13 different articles of 3 tax laws related to "reduction". The authority in the 4 articles was used only once, other one was used 2 and another one was used 3 times. Although a lot of authority have granted to the Council concerning "reduction", they have not been used much.

Therefore, a small number of these regulations amended by law can't lead to any loss or inefficiency.

The Council of Ministers has been most empowered related to "rate" in tax laws and their articles. The authority related to the rate has been granted to the Council in 36 articles of the 18 tax laws. The authority in the other 7 articles was used 2 times, in the 2 articles was used 3 times, in the 3 articles was used 4 times and the authority in the 2 articles was used 9 times. The authority in the other articles was used as follows: 5, 6, 11, 13, 17, 22, 23, 35, 60, 86 and 101 times, respectively. The amendment in rates was made mostly in the Special Consumption Tax Law. However, many of these amendments were used to determine the amount of tax or tax base, which exceed the limits mentioned in the Constitution. The amendments in Value Added Tax Law is used to determine goods which are included in List I and List II. The amendments in Income Tax Law and Corporate Tax Law are used to re-determine withholding tax rates. The amendments related to delinquent tax-due in Law on Collection Procedure of Public Receivables were used to adapt rate to inflation.

Additionally, the authority related to "specific tax" has been granted to the Council of Ministers in 32 articles of the 15 tax laws, which exceed the limits mentioned in the Constitution. This authority in the 5 articles has never been used. The authority in the 4 articles was used twice; the authority in the other 5 articles was used 3 times and in the other 2 articles was used 11 times. The authority in the other articles was used as follows: 4, 8, 9, 12, 13, 14, 15, 16 and 49 times, respectively. It can't be said that the authority of the Council of Ministers to amend "specific tax" is used too much or too frequent after 2003. Generally, it is more accurate to use the revaluation rate in order to update "specific tax".

5. The Necessity of Empowering the Council of Ministers on Taxation

Article 73/4 of the Constitution includes "The Council of Ministers may be empowered to amend the exemption, exceptions and reductions or rate in taxes, fees, duties and other such financial obligations, within the minimum and maximum limits prescribed by law." This provision creates an area which is an exception to the legality principle of taxation.

Under the high inflation conditions of the 1970s, a delegation of such authority to the Council of Ministers is understandable. However, in a country that has embraced democracy and the rule of law, no provision which may cause deviations from "legality principle of taxation" can be accepted. In our country, the authority delegated to the Council of Ministers on taxation are wide and comprehensive, but not in other countries (Saban, 2012).

Nowadays, with provided economic stability and the inflation at reasonable levels, instead of being able to intervene in the economy effectively and quickly, legality of taxation and legal certainty have becomes important. Thus provision of empowered to the Council of Ministers which damages to legality principle of taxation and certainty

of taxation should be abolish from the Constitution in order to make dominant the rule of law in our country (Batirel, 2011: 25; Savaş, 1994: 219).

5. Conclusion

There is no provision related to any form of devolution of taxation power to the Council of Ministers in the constitutions of contemporary democratic countries. In our country, this authority was granted to Council of Ministers in order to compensate for the erosion created by inflation. The authority to amend granted to Council include exemption, exception, reduction and rate of taxes and there are regulations regarding the delegation of authority in 107 articles. However, the granted authority in 23 of these provisions has never been used. Moreover, these authorities were mostly used before 2002, when inflation was high. There has been a rising tendency for excessive empowering to the Council of Ministers. Generally, it is more accurate to use the revaluation rate in order to update. For this reason, provision of empowering to the Council should be abolish from the Constitution, which damages to rule of law and legality principle of taxation.

Key Words: Taxation Power, Legality Principle of Taxation, Council of Ministers' decisions, delegation of authority.

JEL Codes: K34, H20.

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Review of Tax Legislation in terms of Law-making Technique

Güneş YILMAZ¹

Özgür BİYAN²

1. Introduction

Based on the principle of legality, one of the basic principles of taxation, the financial liabilities such as tax, duty, charge, etc. are enacted, amended and annulled by law. The rule that any financial matter like tax, which concerns the entire society, can only be regulated by legislative power appears in the constitutions of many countries. The fact that taxation power which is so important should be exercised by law has caused the statutes to become the most important source for tax legislation.

This study will examine the activities performed within the scope of Turkish Grand National Assembly as regards the matters such as the nature of the rules, methods and/or procedures that should be complied with, the points to take into consideration during law making process, by handling the specific rules of parliamentary law within the frame of literature survey, and also assess whether the principle of legality works properly in the taxation, specifically in tax legislation, by reviewing the lawmaking technique.

2. Law Making Technique

Parliamentary law involves legal texts which bring direct arrangements in the constitution and operation of the parliament. Therefore, the provisions of the constitution as regards the legislative power and Internal Regulations of TGNA (Turkish Grand National Assembly), some legislation regarding TGNA as well as the decisions of TGNA are some of the key sources of parliamentary law. (İba, 2002: 79). In this context, "legislative power (law making technique)" constitutes an important aspect of the parliamentary law. The mentioned power, which is the most significant and primary part in the ability to create the legal order, can also called as creating a legal rule. (Merdanoğlu, 1994: 115; Daver, 1961: 217).

The lawmaker in Turkish Law System can make any arrangement in any subject, provided that it complies with the Constitution. The legislation has an unlimited area of arrangements (SUPREME COURT, DOCKET: 1987/23). Any social fact not included in the field of law by this organ is a blank space which does not exist for the law. The executive power commences once such a space is introduced in the order of law (Merdanoğlu, 1994: 115; Daver, 1961: 217).

2.1. The Concept of Law making Technique

Law making an art which simply connotes the skill and ability to envisage and make out a simple, explicit and systematic rule by evaluating the political, economic and social equilibrium in the society reasonably, observing the procedures of rule-making, with a good knowledge of applicable legislation (Constitution, law, codes and regulations) (Kaplan, 1992: 99-100). These

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aspects and features become more and more important in terms of the statute requiring technical knowledge and expertise, for which the tax legislation constitutes the most important example.

2.2. Significance of Law Making Technique

Law making technique is a very sensitive subject. Prior to making a law in any matter, it shall be required that it should be submitted to a preliminary commission comprising of the specialists of the subject matter, the preliminary draft made out by the committee be communicated to the communities of interest, universities and related public institutions and once their opinions are received, the text drafted by such preliminary commission should be submitted to a commission consisting of full-time experts in order to prepare the final draft, the text made out by such commission be delivered to the legislative organ and the commissions thereof as a draft of the Ministry and submitted to the general assembly for review once the text is put into final form (Kaplan, 1992: 101).

In addition to the script of the statute, the points such as the review of the issues, objectives, solutions, alternatives and costs by the experts as regards the vitality of the statute, analysis of the processes within a plan in terms of the consequences of the norm to be established suggest that this activity is a scientific study (Tank, 2011: 144).

2.3. Principles of Law Making Technique

Some part of the rules to be followed in preparing a bill is the formal arrangements that stand out the rule of legal in the Constitution and Internal Regulations of the Assembly (Araç & İba, 1994: 37). Pursuant thereto, the article #88 of the Constitution, titled, "Proposing and reviewing the statutes" and the article #89 titled, "Promulgation of the statutes by the President of the Republic" as well as the chapter four of the Internal Regulations of TGNA (articles# 73-91), titled, "Making the Statutes" constitute the basis for the arrangements regarding the procedure of rulemaking.

The details in the relevant legal arrangements, on which we place emphasis and attach importance, as regards the regulations and particularly the statutes requiring technical knowledge and experience, in determining the principles to be followed when proposing a bill, are specified in the Regulations on the Rules and Procedure in Law Making.

3. Reflections of Law Making Technique in Tax Legislation

3.1. Importance of the "Statutes" in Tax Legislation

The statutes are very crucial in terms of tax legislation. This position which is based on 73/3 of the Constitution is partly bent in 73/4. In the mentioned provision, the Cabinet is invested with a power in certain aspects

The rules as regards the taxes appear not only in the tax legislation. It is likely to see some rules interspersed concerning the taxes, in the statutes which do not mainly involve tax matters (Karakoç, 2014: 100).

3.2. Changes in Fundamental Statutes in Tax Legislation

The statutes which contain general principles in a way to change any department of legal entirely and inclusively in systematic way; concern the majority of personal and communal

living; point out the basic concepts on which the special statutes in its domain are based; bring the practice into consonance amongst the special statutes; require to maintain the integrity in terms of the domain it regulates and the association among the articles; are subjected to the procedure of private conversation and voting in previous enactment stages, are regarded as “fundamental law” (Özalp, 2006: 280-281).

The statutes in tax legislation are divided into two main groups, as well. Some of these are the generic taxes which are fundamental law in nature and require to be applied in all taxes. Tax Procedural Law and Law on Collection Procedure of Assets fall into this group (Karakoç, 2014: 100). In case there is a gap in these two statutes, it will not be possible to utilise different statutes. (Karakoç, 2014: 101).

3.3. Problematical Practice in Terms of Law Making Technique: Changes in Omnibus Bill Tax Legislation

Omnibus bill includes the arrangements which regulate multiple and different points and set forth some amendments in various statutes and governmental decrees (Teziç, 2015: 335). In other words, omnibus (bag) bill can be defined as *“the statute which sets out changes in multiple statutes although not required or the statute which amends more than one statute that does not have any essential relationship”* (Bakırcı, 2015: 24).

Pursuant to the article #17 of the Regulations on the Rules and Procedures Concerning the Preparation of Legislation, *“no amendment can be made in the clauses of multiple arrangements upon a framework draft, except in the cases requiring an arrangement in multiple legislations due to the existence of connection by the subject. Any amendment to be made are carried out for each arrangement upon separate framework draft.”*

Omnibus Bills undergo significant changes during the negotiations at the commissions. These changes usually manifest themselves as an increase in the number of clauses, inattentive use of the concepts and inclusion of irrelevant arrangements. As an example, the Law no. 6353 has come up in 39 articles into the discussions of the commission but turned out in 59 articles.

3.4. Proposal-Effect Bills in Tax Legislation

The bills are the proposal submitted to the TGNA by the members of parliament. The proposals in question are subject to a different procedure, as compared to the draft law. The attitude which shortens the enactment period is now preferred by the governments as well. This, in turn, introduced the concept of “proposal-effect bill” (Bakırcı, 2015: 29). The bills are made out by the relevant ministries but proposed for the agenda of the assembly by the members of the parliament, rather than forwarding it to the cabinet (Ergün, 2015: 71). In this way, the rule that “the laws should not be restricted” is thereby violated (Teziç, 2015: 338).

3.5. The Number of Statutes Enacted in the Last Two Years in Tax Legislation

One of the practices exercised in tax legislation is the frequent changes made in the legislation. Especially, the changes in tax legislation have made it too hard to keep up with the legislation. Issuing so many Laws frequently causes the rule, “lack of knowledge about the legislation is no excuse”, to become debatable today (Sanlı, 2015: 64). One of the crucial problems of the judicial authority is the complexity of legislation. The statutes are amended so redundantly that it nearly necessitates addressing the rule, “lack of knowledge about the legislation is no excuse” (Sanlı, 2015: 65). Hence, it is implied that there is a great number of statutes in tax

legislation and nearly thousands of statutes have some provisions regarding the tax legislation, as well (Karakoç, 2014: 101).

4. Conclusion

The parliaments in democracies are required to negotiate with the civil society when making the laws and should attach importance to the instruments created to that end. The fact that only the representatives of the nation should carry out discussions does not necessarily enable the democracy to be conducted in real terms (Bakırcı, 2015: 60). Today, the academics, specialised executives and non-governmental organisations are not adequately called upon to speak (Ergün, 2015: 76). Besides, it appears that some disorder, out-of-control situations and conflict are faced during the discussions of planning and budget commission (Ergün, 2015: 78).

Key Words: Law Making Technique, principle of legality in taxation, legislation

JEL Code: K10, K20, K34

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Assessment of IAFA and CPA Chamber Dues within the Principle of Legality

Fatma Taş¹

1. Introduction

Considering the constitutional regulation, the term “similar fiscal burden” is used as the continuum of concepts of taxes and funds. Since there is no sufficient study on this subject, there is not an exact consensus on the context of this concept. Besides that, there is a consensus on the fact that the dues, which the chambers collect under favor of the law, are within this scope.

Within the context of professional organization, there are 18 professional groups in Turkey. These institutions are defined as “professional organizations having the characteristics of public institutions”. The subjects such as which incomes the professional organizations might have, the methods and timings of the collections and the methods of calculating these incomes shall be clearly specified in relevant laws.

Given the relevant legal regulations, it is clear which incomes the professional organizations may have, as well as the details about how to calculate and collect those incomes.

But, despite the incomes of chambers are specified in the Law Nr.3568, the ratios have been determined via the regulations for many years. In this study, the unconstitutionality of determining the dues based on the Law Nr.3568 is discussed.

2. Terminology Problem

In this section, the scope of similar fiscal burden is determined, and the professional organizations established by law are discussed.

2.1. Scope of Similar Fiscal Burdens

The scope of similar financial obligations is determined. Similar and different features of financial obligations similar to other financial liabilities are emphasized.

2.2. Professional Parafiscal Organizations

Professional organizations established by law are being emphasized

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3. Constitutional Principle on Tax and Similar Fiscal Burdens

In this section, the principles and exceptions regarding the taxes and similar fiscal burdens are discussed.

3.1. Principle of Legality form Historical Aspect

The evolution of the legal principle from time to time is mentioned.

3.2. Constitutional Regulation and Its Meaning

The constitution sets out the meaning and content of the clearly defined principle of law.

3.3. Exception of Constitutional Principle

The exception to the statutory principle contained in the Constitution is mentioned. In this context, reasons for the adoption of the exception and its application are explained.

4. Law Nr.3568 from the Aspect of Constitutional Principle

In this section, the regulations made in Law Nr.3568 are discussed.

4.1. Legal Regulation

Regulation on the membership fees included in the Law No. 3568 is included.

4.2. Assessment from the Aspect of Constitution

The regulation regarding the membership fees in the Law No. 3568 is evaluated in terms of the constitutional principle.

5. Conclusion

The principle of legality of taxes is one of the fundamental constitutional principles, which has emerged as a result of the understanding “no tax shall be placed without the legal basis” and which is adopted in taxation domain. From this aspect, the principle of the legality of taxes has an important function in development of both of representative democracy and state of law. In addition to the taxes, this principle also applies to the funds and identical financial obligations.

As stated in this study, the dues that the professional organizations, which are established based on the law, collect from their members are within the scope of “similar fiscal burdens”. For this reason, they must be implemented in accordance with the constitutional principles.

The principle specified in Article 73 of the Constitution and granting the legislative power with the specific authority to tax requires the regulations to be made based on the law from both formal and material aspects. In Article 73/4 constituting the exception of this fundamental principle, the Council of Ministers is granted the authority to place and determine the exemptions, exceptions, discounts, and rates on the condition that these shall be clearly stated in law and the lower and upper limits shall also be specified.

Within this scope, following issues regarding the dues, which are collected based on the Law Nr.3568, draw attention:

- Neither lower nor upper limit is specified in law,
- Council of Ministers has not been granted authority,
- It was stated that the determination of amount and rate would be made via regulation.

As seen, this regulation is clearly unconstitutional. The collection of dues, which have been determined via regulations for long years, still continues. As a necessity of the principle of the state of law, this unconstitutional regulation shall be immediately corrected.

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The Unconstitutionality of the Seizure Authority in Tax Audit

Mine Uzun Çam¹

1. Introduction

The tax administration is charged with ensuring the timely and complete collection of the tax and is equipped with various legal facilities to be used in the realization of this purpose. One of these possibilities is tax audit. It is to investigate and determine the accuracy of taxpayer declarations and declarations targeted by tax audit. This study will deal with unlawful regulations given to the inspection and investigation staff in the tax audit and qualified as *a seizure authority* in the Turkish Tax Law literature. The purpose of the work is to reveal the contrary to the Constitution of the relevant authorities granted to the auditing staff who conduct the inspection and tax examination and to propose a solution to eliminate the contradictions to the law.

2. The Seizure Authority in Tax Audit

In the Tax Procedural Code, some of the powers granted to tax inspection and investigation staff are described a seizure authority. According to the 20th and 21st articles of the Constitution, the seizure process is carried out on the decision of the judge or by written order of the authorized officer in case of delay. The Seizure without Judge's decision is presented to the judge within twenty-four hours. In the forty-eight hours from the time of the seizure, the seizure which has not been approved by the judge abrogation spontaneously.

The obligation to be based on a judicial decision of the seizure process is undoubtedly due to the fact that the seizure is an open intervention to individual rights and freedoms. However, in Turkish Tax Law, there is no prior judgment on any of the transactions granted to the tax audit officers and referred to as seizure, there is no opportunity of applying to the judiciary to against this transaction.

2.1. The Seizure Authority of Inspection Officer

The inspection is a tax audit path established to investigate and identify materials events, records and issues related to taxpayers (VUK.m.127). There are also authorities called the seizure among the officials of the inspection officers (Karakoç, 2011: 306; Oktar, 2011: 205; Saban, 2009: 186; Somuncu, 2014: 155). One of these authorities is to take books and documents which are excluded from the statutory books and documents and which contain indications which may be evidence of the existence of tax loss (VUK.m.127/1-c); the other is to keep the vehicles away from the

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traffic, to keep the goods, to keep them under control and to liquidate due to the lack of some documents during the control of the transportation vehicles (VUK.m.127-1/e).

2.2. The Seizure Authority of Investigation Officer

The tax analysis is a tax audit that has been established to investigate, detect and ensure the correctness of the tax payable (VUK.m.134). According to Article 141 of the Tax Procedure Law, the tax inspection staff, the minutes related to the taxation related events and account situations determined during the examination. Interested parties may request that their objections and clarifications be passed on to this record. However, in case of withdrawal from the signing of the persons concerned, the tax inspector has the authority to take the books and documents containing the events and account cases mentioned in the minutes (VUK.m.141/2). This authority of the tax investigator is a seizure authority (Karakoç, 2011: 306; Oktar, 2011: 205; Saban, 2009: 186).

3. The Unconstitutionality of the Seizure Authority in Tax Audit

The seizure process, which directly interferes with fundamental rights and freedoms, in accordance with the Tax Procedure Law, is contrary to the principles of prohibition of touching the nature, the principle of proportionality, the privacy of private life and the inviolability of the domicile in limiting the fundamental rights and freedoms of the Constitution.

According to the 13th Article of the Constitution, fundamental rights and freedoms may be restricted only by law and in conformity with the reasons mentioned in the relevant articles of the Constitution without infringing upon their essence. However, in order for the legislator to limit based on the reasons stated in the Constitution, the restriction must be appropriate and measured to the requirements of the democratic society order and not to touch the essence of the law. The seizure authority regulated by the Tax Procedural Code is contrary to these principles. Because a restriction is convenient, necessary and proportional to its dimensionality (Metin, 2002: 194; Oğurlu, 2002: 21; Özbudun, 2009: 114), and not to touch the core area which is in the norm area (Sağlam, 1982: 156; Uygun, 1992: 166; Yaltı, 2006: 114). The right of seizure given to the tax auditors is an interference which makes the privacy of the private life and the immunity of the housing impractical and it violates the principle of non-touching and proportionality.

The Article 20 of the Constitution titled "Privacy of private life", unless there exists a decision by a judge neither the person, nor the private papers, nor belongs of an individual shall be searched nor shall they be seized. The Article 21 of the Constitution titled "Inviolability of the domicile", unless there exists a decision by a judge no domicile may be entered or searched or the property seized therein.

In the seizure procedure regulated by the Tax Procedural Law, these rights are interfered regardless of judge's decision/approval (Çavuş, 2006: 88, 127). The authority to receive books and documents of tax auditing and review officers violates the privacy of private life and the inviolability of the domicile; to detain vehicles from the traffic, to hold the goods, to keep them under control and to liquidate violate the privacy of private life, the inviolability of the domicile and property rights.

4. Conclusion

The purpose of the tax audit is to investigate and determine the correctness of taxpayers' declarations and statements. In order to achieve this purpose, authorities have been granted to seize the tax auditors. The seizure, which is a clear intervention in personal rights and freedoms, can not be carried out without the decision of the judge in accordance with Articles 20 and 21 of the Constitution. However, the provisions of the Tax Procedural Law concerning the inspection and examination of the tax give the authority to seize tax inspection and examination staff without regard to judge decision/approval. These provisions, which are also preserved in the Tax Procedural Code Draft, clearly contradict with Articles 13, 20 and 21 of the Constitution. It is imperative that the necessary amendments are made in the legal process and that the seizure authority of tax auditors are made to conform to the constitutional principles.

Key Words: Tax audit, tax inspection, tax examination, seizure, the fundamental rights and freedoms.

JEL Codes: K34, K38.

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Tax Complexity: The Current Status of Turkish Tax System

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1. Introduction

Tax systems have become more complex due to developments in the economic, social and legal context over time. This complexity affects not only the taxpayers but also all of society. One of the most important of these effects is increasing tax compliance costs. Tax administrations and governments have begun to implement a number of measures to simplify the complexity of delivering the benefits of a simplified tax system. However, this field is very weak in the literature and in practice. One of the biggest reasons for this is that the concepts have not been identified and an index has not been established that can accurately determine the level of complexity in the tax system. It is not wrong to say that the Turkish tax system is becoming more complex as it is in other countries around the world. In the study, first of all, negative situations in the complexity of the tax system will be detected. Then, the process of developing simplification initiatives will be examined. Finally there will be an analysis of the complexity level of some Turkish taxes on the basis of the OTS complexity index.

2. Tax Complexity / Simplification

Though tax complexity is a usual topic of debate, the difficulty of defining or measuring what is meant by complexity is a stumbling block to tax simplification (Morris, 2012). Defining 'complexity' is not easy. Typically, writers do not define tax complexity but they have listed and categorized some factors that contribute to complexity. Slemrod identified four aspects of complexity of the tax system: predictability, enforceability, difficulty and manipulability (Slemrod, 1989).

He also widely recognized that definition of the complexity of a tax system is the 'total resource cost' or the sum of compliance costs and administrative costs incurred in complying with the system's requirements. This definition thus provides a basic link between tax complexity and costs of compliance (Slemrod, 1996). Predictability and enforceability pertain to the tax law while difficulty and manipulability refer to taxpayers' responses to the tax law (Evans & Tran-Nam, 2012). There are tradeoffs between simplification and other goals, such as equity and efficiency. (McCaffery, 1990).

3. The Cost of Complexity: Tax Compliance

The level of tax complexity and the level of taxpayer compliance costs are significant issues for taxpayers, governments and policy makers (Kaplow, 1996). Two major implications of tax

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complexity are emphasized in the tax system. Firstly, complexity can create additional ways to shield income from tax and, complexity raises all the costs of taxation. Secondly, complexity increases the possibility that taxpayers make inattentive mistakes in calculating their tax liabilities. From this standpoint, penalties are less appealing means of enforcement, and increasing the probability of detection becomes more costly (Kopczuk, 2006). Collection and efficiency costs are the two major types of cost associated with raising revenue. Heretofore efficiency costs are the largest of these. Collection costs comprise government administration costs and the compliance costs incurred by taxpayers in meeting their obligations under the tax assessment Acts (Oliver & Bartley, 2005).

4. Measuring Complexity

Measuring tax complexity is not easy but still possible. There are a number of issues which can be seen in trying to measure complexity of a tax system; *(i) constant and temporary costs may differ; (ii) only incremental costs should be included, even with no taxes, companies would need to keep records of income and expenses to calculate their profits, and individuals would engage in financial planning; (iii) tax complexity is only a part of government policy, which contains not only spending but also other regulations* (Slemrod, 1996). Nevertheless, there are some initiatives related to measuring complexity around the world and researchers have tried to improve their methods to calculate complexity and to make comparative analyses. These are The Progressive Policy Institute (PPI), PwC -The World Bank, Office of Tax Simplification (OTS), and Evans & Tran-Nam's studies (Tran-Nam and Evans, 2014).

5. Detection of complexity of Turkish Tax System

In terms of complexity, OTS index-based analysis found that THE level of legal complexity of Turkish tax system is lower than developed countries (UK, Australia, New Zealand) comparing Income Tax, Corporate Tax, and Value Added Tax. On the other hand, the level of operational complexity that is related with the implementation of the laws was found to be higher than in developed countries.

6. Conclusion

Tax systems are increasingly complex due to both increased international mobility and changes in social, economic and cultural spheres. Nevertheless, some countries such as Australia, the United Kingdom and New Zealand have made important contributions both to practice and to the literature, with their efforts to simplify their initiatives with their expert staff. As far as the Turkish tax system is concerned, the policies introduced in the implementation of tax laws increase the level of tax complexity. In this context, the scope of implementation of the legislation has been revised on the basis of simplification and it is imperative that policies be developed in this regard.

Keywords: Tax System, Complexity, Simplification.

JEL Code: K34, H2, K30

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Understanding Influence of Tax Amnesties on Tax Compliance and Fairness Perceptions of Taxpayers: The Example of Tax Code 6736*

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1. Introduction

This paper aims to investigate effect of tax amnesties on tax compliance decisions of taxpayers. In particular, we focused on Turkish taxpayers' fairness perceptions and their voluntary tax compliance after the recent legislation of 6736 which is claimed to be the biggest tax amnesty (e.g. tax debt restructuring legislation) in last decade. The research looks into the influence (specifically the moderation effect) of the perception of tax amnesties on fairness perception and tax compliance of taxpayers while controlling for widely discussed factors that influence tax compliance such as risk awareness and government trust. The survey was conducted with 1028 participants and the structural model was constructed to test for the above-mentioned effects. Considering the literature is not extensive on the effect of tax amnesties on taxpayer compliance particularly in Turkey, there is a clear gap in the literature that our research intends to contribute upon.

2. Research Background and the Gap

Considering 24 tax amnesties were enacted in Turkey after 1960 with different scopes, it could be expected the influence of such common application of the legislative power were to be investigated by many academics in the literature. However, the literature is not vast (Alm, 1999; Farrar and Hausserman, 2016). Moreover, the scarcity of the research is deepen when the Turkish literature is concerned (Guner, 1988; Tuncer, 2001). Nevertheless, the literature has related many extensively discussed factors to the frame of tax amnesties and its effect on tax compliance decisions were investigated (Alm and Beck, 1993; Bayer et al., 2015, 2015; Koch and Müller, 2015; Malik and Schwab, 1991; Torgler and Schaltegger, 2005). The literature commonly agrees that although tax amnesties target taxpayers who failed to fulfill their liabilities by creating convenient terms of payment, they might also cause some changes on the perceptions of the taxpayers (Government trust, fairness perception and risk preferences) who did not benefit from the tax amnesties. In particular, the taxpayers who have been compliant to their liabilities might feel cheated therefore their

* This study stemmed from SOS-A-091116-0508 research project titled "The Impact of Tax Amnesties on Taxpayers' Voluntary Tax Compliance, Government Trust, Perception of Justice and Risk Awareness Variables" conducted in BOPKO unit of Marmara University.

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perception of fairness can be harmed (Gamage, 2014; Gilligan and Richardson, 2005; Giray et al., 2015).

Although there are some papers touches the tax amnesty issues in Turkish literature, the main reason behind deciding to conduct this research is the scarcity of the Turkish literature that investigates the effect of tax amnesties and the factors that influences the tax compliance. Additionally, there are not any works spotted in the literature that focuses on the moderation effect of perception of tax amnesties with control variables. It is expected that this research aim to fill the gap in the literature in this manner. Hence, the purpose of this study is to analyse the effect of the tax amnesty perception of the taxpayers on changes of their fairness perceptions and its influence on their tax compliance decisions with the factors that affect it, such as government trust, and risk preferences, during the time that the amnesty is in place. Additionally the possible differences between the amnesty benefiteres and non-benefiteres were also investigated. In accordance to the explained research frame, 3 hypothesis and a structural model to explain the complex nature of the compliance behavior were formed. Given the word limits of this abstract they were not included here.

3. Methodology

The data was gathered from 1028 participants with a printed survey instrument by using face to face surveying during the amnesty applications were in place 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 (e.g self-employed, tradesman and owner-managers of companies) and a quota was applied for beneficiary and non-beneficiary taxpayers of the tax legislation 6736 to reach a representative sample. Survey instrument was formed with pre-tested scales (please see Ahmed and Braithwaite, 2005; Hartner et al., 2011; Kirchler and Wahl, 2010; Muehlbacher and Kirchler, 2010; Wenzel, 2002) 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 to test the model with PLS-SEM by using SmartPLS software packages.

4. Conclusion

Although every tax amnesty is introduced with the reason behind, in the practice phase of the amnesty the intentions of the policymaker might not be materialised as it is hoped. For instance, if the tax amnesty stays in the agenda of the society for longer than it should be some taxpayers might want to take advantage of the situation by avoiding their current liabilities of tax which might result a decrease on the level of tax revenue. Whereas, the main rationale behind the tax amnesty is to help taxpayers to pay unpaid tax bills. In our research we aim to undercover the moderation effect of the tax amnesties on the above-mentioned variables. Additionally, we searched for

whether the effect of the tax amnesties is temporary by planning the second survey on the same participants. Consequently, found that, unlike the literature, there are no moderation effects of tax amnesties detected on the fairness perception of taxpayers while their tax compliance intentions were deteriorated as a result of tax amnesty. However, there is a significant difference between benefactors and non-benefactors of the amnesty where the benefactors perceive more unfairness towards the legislation.

We expect that full-scale findings would be more detailed and they might shed a light on the future decisions of the tax amnesties for the policy makers.

Key Words: Tax Amnesties, Fairness Perception, Risk Perception, Government Trust, Tax compliance.

JEL Codes: H20, K34

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Taxpayer Rights in Japan

Gülşen Gedik¹

1. Introduction

All taxpayer are persons are holders of rights. As holders of rights, taxpayers are entitled to a timely and effective protection of these rights in their dealings with tax authorities. (Baker & Pistone, 2015: 21) Without legislation taxpayer rights will not be legally protected and even if legislation provides for taxpayer rights, they can't be protected if the tax authority does not follow the legislation or the courts are not impartial. (Nakatani & Ohno, 2015:461)

This article aims to give information about taxpayer rights in Japan. For this purpose firstly we have to encapsule tax law system levied by national and local governments and classified into income, property and consumption taxes and identification of taxpayers then explain what taxpayer rights are in Japan.

2. Japanese Tax System

2.1. Income Tax

Taxable income is classified for the purpose of calculation into the ten categories in accordance with the nature of the income: Interest, dividend, real estate, business, employment, retirement, timber, capital gains, occasional and miscellaneous. Income tax rates are progressive, ranging from %5 to %45. (An Outline of Japanese Taxes, 2002: 26).

2.2. Corporation Tax

Japanese corporate income taxes consist of corporation tax (national tax), business tax (local tax) and prefectural and municipal inhabitant taxes (local tax).

The corporation tax is imposed on taxable income of a company at the following tax rates: Taxable income up to 8 million JPY in a year: %19, taxable income in excess of 8 million JPY in a year: % 23.9 (<https://assets.kpmg.com/content/dam/kpmg/pdf/2016/03/jp-en-taxation-in-japan-201511.pdf>).

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2.4. Identification of Taxpayers

According to Corporation Tax Law corporations are grouped under the four headings: Ordinary companies, public corporations, corporation in the public interest and cooperatives. Individual taxpayers with respect to income tax are divided into “residents” and “nonresidents”. An individual who has domicile or has had a residence for one year or more in Japan must pay income tax on all of his or her income from both within and outside Japan. (An Outline of Japanese Taxes, 2002: 27-28).

3. Taxpayer Rights

3.1. Legality

According to Japan Constitution Article 30; “The people shall be liable to taxation as provided by law”, declaring the duty of the people to pay tax. In addition Article 84 states; “No new taxes shall be levied or existing taxes modified except by law or under such conditions as law may prescribe”, laying down the principle that no taxes can be imposed on the people except by law. Article 92 of the Japanese Constitution states that “Regulations concerning the organization and operation of local public entities shall be fixed by law in accordance with the principle of local autonomy”. Local public entities consist of cities, towns and villages. (http://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html)

This principle has been widely accepted by the legislative body, the Japanese tax authority, courts, practitioners and academics and includes this sub principles:

- (a) taxable events must be described by legislation (written law), or by administrative orders derived from legislation;
- (b) taxable events must be described as clearly and precisely as possible;
- (c) the tax authority has no discretion to reduce taxpayers’ obligations as described by legislation;
- (d) tax procedures (including appeals) must be fair;
- (e) tax legislation should not have retrospective effect;
- (f) taxpayers’ rights should be protected (Nakatani & Ohno, 2015:462-463)

In Japan there is no GAAR provision.

3.2. Confidentially

Taxpayers’ confidentiality is protected by the General Law of National Taxes (GLNT and other laws including the National Public Service Act and a violation of these laws will be penalised by imprisonment and/or a fine. If a government employee violates these laws, he will also be administratively penalised under the disciplinary provisions of the National Civil Service Law and others. Although taxpayers’ information held by the tax authority is protected as confidential and not disclosed to others, a taxpayer can request the tax authority to disclose information relating to the taxpayer himself. Taxpayers can request the correction of errors in any information disclosed. (Nakatani & Ohno, 2015:467)

3.3. Tax Audit

When commencing a tax examination, the tax authorities should, in principle, provide taxpayer with a formal notice of examination. When concluding a tax examination, if the tax authorities don't consider that an assessment should be made, the authorities should notify the taxpayer accordingly in writing. (<https://www.pwc.com/jp/en/taxnews/pdf/tax-audit-procedures-e.pdf>).

3.4. Review and Appeals

A taxpayer who has received a notice of correction or a notice of determination can submit a request for reinvestigation and can submit a request for review to the National Tax Tribunal. The losing party at a district court may file and appeal to a High Court, and then to the Supreme Court. The burden of proof (for example, in demonstrating that there is a taxable event or establishing the amount of taxable income) is on the tax authority. (Nakatani & Ohno, 2015:472).

4. Conclusion

A fair taxation system is important to protect taxpayers' rights as a whole. It would be an infringement of taxpayers' rights if some taxpayers could evade or avoid taxes at the expense of other honest taxpayers. From this point of view, the balance between protecting taxpayers' rights and the administrative power of the tax authority to audit, investigate or collect information should be carefully examined. Although Japan is not member of EU and didn't signed EHRC we can see same rights to protect taxpayer rights and also they have enhanced tax audit system and taxpayer support offices in taxation bureaus to help taxpayer. In addition to legality and confidentiality principles I think we shouldn't just model EU but also Japan tax audit system.

Key Words: Japan tax, Japan taxpayers, taxpayers right.

Jel Codes: K34, H25, H21.

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The Impact of Corporate Income Tax Systems on R&D of Multinational Entities - EU Member States vs. Turkey

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1. Introduction

R&D has made a significant contribution to economic development and sustainability. Thus, governments offer different fiscal instruments, such as tax incentives or allowances, to attract corporations' R&D. The EU is working on the switch from ST (Separate Taxation) to CCCTB, entailing harmonized R&D tax allowances, without tax rate harmonization. This study aims to analyze how ST and CCCTB impact the location of MNEs' R&D and countries' tax revenue through a case study. The results show, under ST, countries attract R&D activities by using attractive tax allowances and tax rates. Whereas, under CCCTB, the location of R&D activities depend additionally on the tax base allocation factors, which cannot be directly influenced by countries. Tax rate deduction remains the only tool for Member States, which leads to revenue loss on the whole. Furthermore, any R&D dislocation impacts the tax revenue under ST to larger extends than under CCCTB.

2. Related Literature

Globalization, changes in technology and business structures are challenging the functioning of the currently used source-based taxation principle by ST (e.g. IMF, 2014). Hence, the EU, for instance, has been working on the switch from ST to CCCTB³ to overcome the problems (e.g. transparency, administration, tax competition) caused by ST (see Devereux et al., 2002; Genschel et. al., 2008; Eggert & Haufler, 2006; Huizinga & Laeven, 2008; Eurostat, 2014). The European Commission (2016a; 2016b) recently left no doubts about its persistence on CCCTB's implementation, which has been evaluated by a researcher group as being in line with the general principles of international taxation (see Spengel et. al., 2012).

However, the divergence from the source-based taxation principle by Formula Apportionment (FA) (used e.g. in USA, Canada, Germany) has triggered discussion.

Divergent results exist regarding which factors (assets, sales, or payroll) are more appropriate for the allocation of the tax base⁴ (see Celebi, 2013). For instance, Zagler (2009) advocates

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³ CCCTB stands for Common Consolidated Corporate Tax Base and includes harmonization of tax base regulations, consolidation, cross-border loss offset and FA, however without tax rate harmonization. This means each Member State will still have the authority over the determination of its tax rate (see European Commission, 2011).

⁴ The formula for FA within the framework of the CCCTB is based on the Massachusetts formula, e.g. the tax base share of group member X is apportioned in relation to the sum of the all the group members (Group) as in the following by using this formula:

$$Share X = \left(\frac{1}{3} \frac{Assets^X}{Assets^{Group}} + \frac{1}{3} \frac{Sales^X}{Sales^{Group}} + \frac{1}{3} \left(\frac{1}{2} \frac{payroll^X}{payroll^{Group}} + \frac{1}{2} \frac{Number\ of\ Employee^X}{Number\ of\ Employee\ Group} \right) \right) * Consolidated\ Tax\ Base$$

excluding the assets, whereas Hellerstein and McLure (2004) approve it as the sole appropriate allocation factor. Another point is the exclusion of intangible assets, seen as reasonable because of their manipulability (see Sørensen, 2004; Mueller, 2010); this can, however, disadvantage R&D investments within the EU, having mostly intangibles as output. This can impact the productivity, growth or employment in Member States in the long run, because of the impact of R&D on innovation (see Hodzic, 2013). Furthermore, tax incentives are regarded as the only tool for governments to affect the amount of R&D undertaken and its economic impact (Griffith et al., 1995; Hall & Van Reenen, 2000). Here, McKenzie (2008) shows that the tax treatment of R&D is often quite complex and substantial across jurisdictions

3. Methodology & Outcomes

The impact analysis of ST and CCCTB is based on a case study focusing on the fiscal consequences of an MNE with a European high-tax parent company founding a subsidiary, either within the EU or in a third country, with R&D activities with lower tax rates.

The comparison of ST and CCCTB enables answering the research questions from two different perspectives:

- What is the impact on R&D for Member States of a switch to CCCTB?
- How does the ST impact R&D investment in a third country, e.g. Turkey, when European Member States apply the CCCTB?

The results show a higher tax burden under FA than ST. This is triggered by two factors. Firstly, CCCTB allocates a higher tax base to the parent company than it generates; i.e. tax revenue shifts from the subsidiary's residence country to the parent company's. Secondly, the limited R&D allowance (25%, 50%) (European Commission, 2016b, 9) of CCCTB decreases the total allowance, i.e. increase in total CIT burden, in our case by 2.85%. An increase in the tax rate difference between both residence countries as well as in the allocation factors of the parent company would raise the difference between the CCCTB and ST to a higher amount.

In the case of a dislocation of all R&D activities to a low-tax subsidiary, the tax base allocation to the subsidiary (parent company) increases (decreases). Higher tax rate differences between both countries as well as higher assets and labor intensity of the dislocated R&D activities mitigate the negative impact caused by the lower allowance under CCCTB.

From the perspective of the switch from ST to CCCTB, the outcomes show a decrease in tax revenue of the high-tax county (in our case the parent company by 33%). Furthermore, the limitation of tax allowances and FA in CCCTB disadvantage Member States currently offering higher allowances with less labor and asset-intensive corporations.

4. Conclusion

Harmonizing the tax allowance by means of CCCTB disadvantages EU Member States currently offering R&D allowances of 50% and higher. Third countries offering tax allowances higher than 50% possess an important tool for attracting R&D investments. For instance, Turkey can attract R&D investments and benefit from being a third country by prolonging the tax allowance of 100%, which is temporally limited to 2023.

(see European Commission, 2011).

Furthermore, the deviation from the source-based taxation principle by FA makes the tax revenue of the Member States dependent on the MNEs' FA-factors located in other Member States and their tax rates, which can lead to over-taxation and a tax revenue loss for high-tax countries under CCCTB (shown in other study settings in Oestreicher & Koch, 2011; Eichner & Runkel, 2011; Riedel & Runkel, 2007). This can cause challenges for Member States regarding budgeting and lead to major problems in their public finances.

Key Words: corporate income tax, tax incentives for research and development, CCCTB, separate taxation.

JEL Codes: H25, O23, H20.

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The Income Effect of Taxes (Direct and Indirect) on Industrial Production: An Econometric Analysis for Turkey

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1. Introduction

It is known that increasing capacity utilization rate and technological innovation increase industrial production by making significant changes in production processes and organization methods.

The purpose of this study is to put forward that taxes ,within the scope of income effect, also have a positive effect on industrial production likewise capacity utilization rate and technological innovation.

In this study the income effect of taxes on industrial production is analyzed with unit root, causality, cointegration tests and long term and short term predictions are made by direct,indirect tax revenue and industrial production data within the period of time 2006:M01-2015:M12.

In this study variety of tests were carried out to identify the stationarity,causality and cointegration of series which are ADF test to identify stationarity of series, Granger(1969) causality test to identify the existence of causality relations between variables, Engle-Granger (1987) and Johansen(1988) method to identify the existence of the cointegration relationship between the series, long term and short term analyses are carried out with DEKK method.

It is expected that the study will contribute to the literature in the subject examined.

Because taxes are always associated with negative thoughts but in this study it was concluded that taxes revenues has a positive income effect on industrial production.

2. Taxes and Effects

2.1. Taxes

In economies where market economy and mixed economy models are in use, the taxes constitute up to 70% to 90% of public revenues. Taxes are defined as financial charges imposed upon natural person or legal person, according to their solvency, with the aim of funding public expenditures by government or other public administrations which have taxation authority (Ay, 2015: 140). Depending on functions connecting with the taxation and

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changes occurring in this field; taxes are classified according to their subjects, their tariff structure and also according whether taxes consider taxpayers personal and household status or not (Şen & Sağbaşı, 2016: 58) In study classification will be take into account as direct-indirect taxes.

2.2. The effects of Taxes

Individuals whose incomes have decreased by paying taxes can make various decisions in order to regain their former income level. In this context reviewing the decisions of consumption, investment and savings by taxpayers is expressed as declaration effect. Declaration effect comes up in two ways. One of these effects is income effect of taxes and the other is substitution effect of taxes. In this study income effect of taxes will be held which can be defined as working harder to increase their decreasing income because of paying tax duties.

3. Industrial Production

Industrial production, measure of the output of industrial sector, is defined as activities carried out in order to produce products and materials from raw materials. From the 1850s that industrial revolution emerged until the 1970s, industrial production has become the most significant actor of economies and become the sector which has the greatest share of GDP (Eğilmez, 2016: 83). The development of the industry can also be measured from total investment or capital cost. But it is not considered a good measure because it doesn't indicate the output of the industry sector. Instead, industrial production index is used to represent industrial production in Turkey, since industrial development is more appropriate to be measured by the additional contribution made to the industrial sector (Terzi & Oltulular, 2004: 221).

4. An econometric Analysis with Data of Turkey

4.1. Data Set and Method

In this study; 2006: M01-2015: M12 time period, Indirect Taxes (DLI), Direct Taxes (DSZ) and Industrial Production (IPI) data were used to examine the impact of direct and indirect taxes on industrial production in Turkey. All data were and logarithmized and seasonally adjusted according to Moving Average Methods. Data on Indirect and Direct Taxes were obtained from the TCMB-EVDS website (<http://evds.tcmb.gov.tr/>) and Industrial Production data were obtained from the OECD web page (<http://stats.oecd.org/index.aspx?queryid=207>) . The analysis was carried out by using the Econometric Views 9.0 program.

4.2. Unit – Root Test

In order for a time series to be stationary, its mean and variance must not change over time, and the covariance between the two periods should depend on the distance between the two periods, not the calculated turnaround (Gujarati, 1999: 713).

4.3. Granger Causality Test

In the analysis based on this study, the Granger (1969) causality test was applied to determine the causality between variables. Granger defines causality as "X is the Granger cause of Y, if the predictive value of Y is more successful when the past values of X are used comparing to the situation when past values of X are not used" (Granger, 1988: 554).

4.4. Cointegration Test

Level values of many macroeconomic variables are not stationary. To be able to indicate real relations and to be significant of regression analyses carried out with non-stationary time series depends on presence of cointegration relation among time series (Gujarati, 2012: 725, 726).

4.5. Long and Short Period Analysis

When IPI, DSZ, and DLI series act together in the long run, long term analysis with level values of these series will not contain fake regression problem. Error correction model to analyze the short-term, differences were laid and a long-term period lagged value of the error term derived from the analysis series (Error Correction Term: ECT-1) is used.

5. Conclusion

In this study it is found that direct and indirect taxes have a positive and significant effect on industrial production. An increase of 1% in indirect taxes increases industrial production by 0.48% and an increase of 1% in direct taxes increases industrial production by 0.32%. Dummy variables were used for the structural break dates, and the dummy variable used for the period of 2008 was found to be negative and statistically significant. In other words, the global crisis affected the industrial production in a negatively.

In the short term analysis, the coefficient of the error correction term was found to be negative and statistically significant. In this model, error correction term is working. That is to say, deviations occurring in short-term between series that act together in long-term diminish and series are converging to equilibrium values again. This situation also provides evidence that the long term analyses made are reliable.

As a result taxes don't have negative structure all the time. Thus it is determined that the income effect of taxes increases the industrial production in this study. For this reason, the income effect of taxes in this study can be likened to tax audit. Because tax audit has also negative connotation for taxpayers but after tax audit, it can be reached that taxpayers might have paid excess tax. In other words, tax is not always receiving position, tax can be giving either.

Keywords: Tax Revenues, The income effect of Taxes, Industrial Production

JEL Code: H25, K34, E23, L11

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Analysis of Feldstein - Horioka Hypothesis with regards to Public and Private Saving - Investment Balance in Turkey

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1. Introduction

One of the most important studies in the literature on saving-investment relationship is “*Domestic Saving and International Capital Flows*” which was examined by Feldstein-Horioka in 1980 based on 16 developed OECD countries.

In this study, to give the literature a new perspective, the public saving-investment relationship and the private savings-investment relationship in Turkey will be tested separately under the Feldstein-Horioka hypothesis, although studies have been carried out to determine whether the Feldstein-Horioka hypothesis is valid in Turkey. For this purpose, firstly, public saving-investment relationship and the private saving investment relationship in Turkey will be examined, then, the Feldstein-Horioka hypothesis and methodology will be discussed and the literature on this subject will be examined. In the last chapter, the public and private saving-investment relationship in Turkey will be empirically analyzed within the scope of the hypothesis and the study will be concluded.

2. Public Savings and Investments in Turkey

In the Turkish economy, the saving-investment relationship has also been used as a very effective indicator for the determination and implementation of public policies. Examining the changes in public savings and investments in Turkey will provide guidance for explaining economic policies and outcomes.

When public savings and investments in Turkey are examined over the years, public savings have not been enough to meet public investments in scarcely ever and there has been chronically public savings gap. Public savings in the country have been more influenced by international developments and changes than public investments and for this reason it has a more variable structure. Public investments usually consist of long-run fixed capital investments that require high economic power and cannot be used actively in the fight against conjuncture because it cannot be changed in the short term. Therefore, public investments follow a more balanced course.

3. Private Savings and Investments in Turkey

To make a valid analysis of the saving-investment relationship in Turkey, it is necessary to focus on private savings and investments after public savings and investments.

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Although several studies have been conducted in the literature on the determination of private savings and investments, the factors affecting private savings and investments; Economic growth, personal income, demographic factors, inflation, financial factors, real income, real interest rates, foreign borrowing facilities, social security applications, fiscal policy applications can be considered as main reasons.

Private savings and investment rates in Turkey have followed a rather volatile path with the liberalization process that started in the 1980s. In consequence of examining the private savings and investments in Turkey, these two variables are heavily influenced by cyclical and global movements, especially domestic interest rates.

4. Empirical Evidence

In the study, public and private investment and saving relations in Turkey were examined using the annual data of 1975-2014 period under the Feldstein-Horioka hypothesis. The hypothesis is based on the test of the following equation:

$$\left(\frac{I}{Y}\right)_t = \alpha + \beta \left(\frac{S}{Y}\right)_t + u_t \quad (2)$$

Since the absence of long-term cointegration between private sector investment and savings, the next part of the study is based on an analysis of the relationship between public sector investment and savings.

**Table 2: Long Term Cointegration Equation of Private Sector:
DOLS and FMOLS Estimation Results**

Independent Variables	DOLS		FMOLS	
	Coefficients	t-statistic	Coefficients	t-statistic
S/Y	0.194	1.975*	0.225	1.941*
C	0.123	6.687***	0.116	5.362***
R ²	0.12		0.22	
Engle-Granger Cointegration Test				
ADF Test Statistic	-1.906		Critic Value	-3,52

*** , *** show significance levels of 10%, 5% and 1%, respectively.*

There are Dynamic Ordinary Least Squares (DOLS) and Fully Modified Ordinary Least Squares (FMOLS) estimation results of public sector's in Table 3. According Gregory-Hansen cointegration test results, cointegration is concerned with the structural fracture in the public sector in 1991. The period of structure corresponds to the period of capital movements acceleration in Turkey.

According DOLS results of pre-fracture period, one unit increase in the rate of domestic savings leads to an increase of 0.34 units in domestic investments. According FMOLS results, one unit increase in domestic savings leads to an increase of 0.31 units in domestic investments.

**Table 3: Long Term Cointegration Equation of Public Sector:
DOLS and FMOLS Estimation Results**

Dependent Variable: I/Y				
Period 1975-1991				
Independent Variables	DOLS		FMOLS	
	Coefficients	t-statistic	Coefficients	t-statistic
S/Y	0.345	2.707**	0.311	3.131***
C	0.050	5.384***	0.051	11.584***
R ²	0.53		0.36	
Period 1991-2014				
S/Y	-0.026	-0.454	-0.036	-0.785
C	0.043	30.660	0.043	30.390
R ²	0.42		0.058	
Period 1975-2014				
S/Y	0.271	3.286	0.265	3.417
C	0.047	17.001	0.047	16.506
R ²	0.49		0.26	
Engle-Granger Cointegration Test				
ADF Test Statistic	-1.711		Critic Value	-3.52

Not: According to Gregory-Hansen Cointegration test result, 1991 is the year of structural fracture and **, *** show significance levels of 10%, 5% and 1%, respectively as before and after 1991.

5. Conclusion

In this study, the validity of the Feldstein-Horioka hypothesis in public and private sector in Turkey has been investigated by considering the structural fractures. According the results of the Engle-Granger and Gregory-Hansen cointegration tests, there is no long-term cointegration relationship between domestic investment and saving rates in the private sector. Although public sector Engle-Granger test results show that there is no long-run relationship between investment and saving rates, there is a long-run relationship with the break in 1991 according the Gregory-Hansen cointegration test. The year of the fracture corresponds to a period of capital movements increasing. For this reason, according the DOLS and FMOLS estimation results, an increase in the domestic saving increases the investments before the fracture. However, after 1991, the relationship is reversed. The increase in domestic saving rates leads to a decrease in investments. According the short-term error correction model results, savings have no significant effect on investments in the short term.

As, a result, increasing domestic savings in Turkey does not have a significant effect on investments, so while public policies are being determined, the identification of direct investment policies make it possible to achieve the objectives of fiscal policy such as economic growth and development.

Key Words: Saving, Investment, Public Policy.

JEL Codes: O16, R42, C12.

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The Impact of Refugees on Income Inequality in Turkey: A Review at the Level of the Sub-Regions

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1. Introduction

Migration movements towards Turkey can be examined in a dual classification: (1) regular immigration covers registered immigration made by those immigrants who come to Turkey for study or educational purposes and who are members of the family who are allowed to live or work and who are involved in "legacy" (2) irregular immigration is including shuttle migration, transit migration, asylum seekers and refugee movements. Irregular immigration is more generally describing "illegal" migration movements. (İçduygu et al., 2014: 223). The purpose of this study is to determine the effect of the refugees in Turkey from 2006-2015 on the justice of income distribution at sub-regional level. The method of study is panel data and the relationship between income inequality and immigration in 12 regions of Turkey in level 1 according to NUTS classification is examined using annual data.

2. The effects of Immigration on Income Distribution

The Impact of immigrants on the factor prices (such as decreasing wages and Gini ranging, and increasing capital income,) does affect the initial population. This leads to an increasing in rents and a decreasing in the wage of unskilled workers. The changed factor prices would have harmful effect on poor and beneficial effect on capital wealthy people if immigrants were poor of capital. Immigrants have more reducing effect on unskilled workers than white-collar or skilled workers. As result, this kind of immigration movements has positive effect on the income inequality (Dolmas & Huffman 2004: 1157; Borjas vd., 1996: 246; Williamson, 1997: 125). However, there are authors who claim that the income inequality is little effected by the immigration movements (Altonji ve Card, 1991: 201).

3. The Effects of Refugees on Income Inequality in Turkey

3.1. Data and Methodology

In the study, the relationship between income inequality and refugees in the 12 regions at level 1 according to NUTS classification was examined by Panel Data which consisting of horizontal-sectional analysis and time series using annual datas for the period of 2006-2015.

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According to Baltagi (2005) panel data method has significant superiorities compared to horizontal-sectional analysis and time series. Refugees statistics data sourced from United Nations High Commissioner for Refugees and the Gini coefficients used as indicators of income inequality were obtained from TURKSTAT data base. LGINI shows the logarithm of the income inequality, the LG is the logarithm of the refugees to the country. To facilitate the interpretation of the parameters and to analyze the variance problem, the logarithms of the variables are taken and the analysis is included.

3.2. Findings

Priority in the study was investigated by the stationary characteristics of the variables Levin, Lin & Chu (1993), Im, Pesaran & Shin (2003) and Fisher-ADF panel unit root tests. According to the unit root test results, the gini coefficient was found to be stable at the level of the variable level. Logarithmic migration variables include unit root at level, while the first difference is stationary. Therefore, the first difference of the migration variable is taken to be static and the analysis is included.

Table 1: Pooled OLS, Fixed Effects and Random Effects Model Forecast Results

Dependent variables: LGINI			
independent variables	OLS	Fixed Effects	Random Effects
Δ LG	0.284 (3.017)***	0.258 (2.752)***	0.283 (3.053)***
C	36.752 (4.369)***	36.756 (6.756)***	36.753 (5.236)***
R ²	0.18	0.21	0.16
F-test	9.105	4.987	9.073
N	12	12	12
T	10	10	10
Observation	120	120	120
Hausman Test	3.667 (0.000)		

Notes: Values in brackets indicate t-statistics. ***, **, * indicate statistical significance at the levels of 1%, 5% and 10%, respectively.

Table 1 contains estimates of the Pooled Smallest Squares, Fixed Effects, and Random Effects models. The alternative hypothesis rejecting the null hypothesis that the Hausman test fixed effects before the coefficient estimates were valid is accepted. This is the result of the fixed effects model being valid. This result is also compatible with the database we have obtained for the entire sample (12 sub-regions). In terms of the reliability of the fixed effect model results, the results of the Pooled OLS and Random Effects model are also included.

Table 1 shows the estimation results of the fixed effect model. According to the results obtained, the coefficient of migration variable is positive and statistically significant. This result is compatible with the theoretical expectations in the literature. Accordingly, it can be said that immigration has an increasing effect on income inequality in Turkey.

Table 2: Pooled OLS Forecast Results for Sub-regions

ID	SUB-REGIONS	COEFFICIENT	STANDARD ERROR
1	North East Anatolia	0.399**	0.083
2	Central East Anatolia	0.484***	0.031
3	South East Anatolia	0.675***	0.110
4	Istanbul	-0.898	0.483
5	West Marmara	0.402**	0.082
6	Aegean	0.720**	0.205
7	East Marmara	0.803*	0.287
8	West Anatolia	0.200**	0.052
9	Mediterranean	0.449***	0.072
10	Central West Anatolia	0.742***	0.098
11	West Black Sea	0.676**	0.126
12	East Black Sea	1.889**	0.499

***, **, * indicate significance levels at 1%, 5% and 10% significance level respectively.

Table 2 shows the estimation results by the sub-regions. It has seen that refugees have positive effect on income inequality, except for Istanbul. Income inequality in regions has been gradually deteriorating by the refugee flows. However, refugees effect on income inequality is negative and also statistically meaningless, and therefore, refugees effect on income inequality is not clear in Istanbul sub-region.

4. Conclusion and Recommendations

In our study, we have found out that 1% increase of refugee population does increase income inequality by 0.28% in Turkey. It has seen that Northeast Anatolia is the least influenced, and Eastern Marmara is the most influenced sub-region. Refugees should be avoided as cheap labor by making legal arrangements. Limited work permission of Syrian refugees need to be revised in the this respect, and a regional social contribution regime can be applied depending on refugees density. The fact that a significant portion of refugees are unskilled and so this have been increasing their potential of raising income inequality. Central government institutions are likely to face problems caused by lack of information. In this respect, detailed demographic and economic statistics of the refugees within the borders should be prepared/reported by local authorities, and according the reports, transfer payments from central government to refugees should directly transfer to the local authorities under a new heading.

Integration process of refugees must be accelerated, and they must be educated in this way.

As result of the developments, increased rent incomes at regions should be taxed in accordance with the tax justice.

Key Words: Refugee Problem, Income Distribution, Panel Data.

JEL Codes: C23, D31, F22.

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Measurement of Turkey's Regional Development Policies' Success in Reducing Regional Disparities

Cihan Kızıl¹

1. Introduction

One of the common problems faced by developed and developing countries in the international competition environment is the emergence of regional imbalances and subsequent economic, social, cultural and political issues. As a country where regional differences are clearly apparent, Turkey has recently started to put more emphasis on regional policies in the light of EU harmonization process. Even though many subjects including the preparation of regional plans, establishment of development agencies and providing of regional incentives have been reviewed by researchers, it is also apparent that there are very few academic studies on the measurement of how much the applied regional policies and used tools are fulfilling the targeted regional goals and their success. This study aims to measure the results obtained throughout Turkey with a regional development index.

2. Measurement of the Regional Development Level

In Turkey, there are various index calculation efforts; be it by public institutions, private organizations or researchers. Most prominent of these studies are SEGE-2003 published by DPT and SEGE-2011 as replicated by Ministry of Development and IGE-2010 and IGE-2012 prepared by İş Bank. These extensive studies aim to rank cities by their levels of development. That is why these studies do not provide time-series data and therefore fail to provide us with sufficient information on the development trend of these cities. In addition, even if these studies are conducted by the same institution, they cannot be compared with each other due to their usage of different weights and variables (Kızıl, 2016: 34).

Turkey is divided into 12 NUTS level-1, 26 NUTS level-2 and 81 NUTS level-3 regions specified in line with the EU nomenclature of territorial units for statistics (NUTS) (DPT, 2003; 102-105). In the study, the level-3 classification has been taken into account and various economic and social variables have been used in order to determine the development levels of 81 cities. The average of the values belonging to the 11 year period between 2004 and 2014 are used to create another data set, and then principal component analysis is performed to obtain the weights for the calculation of regional development index. The regional development index is generated by using these weights and 14 socio-economic criteria. The socio-economic development differences within the region have also been measured in line with NUTS level-2 classification. In

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the analysis, the first principal component explains 49.4% of the variance. This rate is 46.38% for SEGE-2003 (DPT, 2003: 43), 38.23% for SEGE-2011 (Ministry of Development, 2013: 47), 41.6% for IGE-2010 (Turkish İş Bank, 2012: 6) and 46.78% for IGE-2012 (Turkish İş Bank, 2014: 3).

3. Analysis and Findings

According to the results of the regional development index, the 10 most developed cities in 2004 are respectively Ankara, İstanbul, İzmir, Bursa, Eskişehir, Antalya, Kocaeli, Yalova, Isparta and Muğla. At the same time, the cities that exceed 100 points in index value are these same cities. The 10 most developed cities in 2014 are as follows: İstanbul, Ankara, Eskişehir, Kocaeli, Bursa, İzmir, Denizli, Kayseri, Yalova and Antalya. One of the striking results arising from this ranking is the fact that İzmir, which is in the third place in 2004, dropped to 6th place in 10 years. Within this period, Isparta and Muğla lose their place among the first 10 cities and Denizli and Kayseri make it to the top 10. The 10 most backward cities in terms of socio-economic development in 2004 are Şırnak, Ağrı, Hakkari, Muş, Mardin, Siirt, Iğdır, Van, Bitlis and Kars. In 2014, Şırnak, Ağrı, Hakkari, Muş, Van, Siirt, Bitlis, Şanlıurfa, Mardin and Batman are placed in the last 10. It is interesting that the position of the last 4 cities do not change at the end of this 10-year period. Again within this period, Iğdır and Kars leave their places in the top 10 to Şanlıurfa and Batman.

The biggest rise in development scores between 2004 and 2014 belongs to İstanbul with 86.60 points. The 5 cities that follow İstanbul and their rises in development scores between 2004 and 2014 are respectively: Kocaeli (82.22), Kayseri (69.78), Eskişehir (69.40), Kırıkkale (67.88) and Bolu (67.25). According to the results, the least developed city in the 11 year period is Şırnak with a rise of 12.79 points. The cities that achieved the lowest level of development after Şırnak are respectively: Şanlıurfa (14.32), Ağrı (14.79), Gümüşhane (16.45), Hakkâri (16.62) and Muş (17.32).

Ankara, the capital of Turkey, shares the first two places in socio-economic development with İstanbul. However, the city of Ankara is at 13th place in terms of the development performance between years 2004 and 2014. In this period, the cities of Kocaeli, Kayseri, Eskişehir, Kırıkkale, Bolu, Sakarya, Bursa, Denizli, Konya, Osmaniye and Manisa develop more than Ankara. İzmir, which is at 3rd place in 2004, shows an increase in development scores of only 53.41 points within this 10-year period and is only able to take 21st place in terms of performance.

When we look into the internal differences of the 26 NUTS level-2 regions, we can see that there are regions with cities that show very different development performances. For example, in TRC1, Gaziantep shows an increase in development scores of 51.30 points, but Adıyaman shows a rise of 24.86 points and Kilis shows a rise of 18.71 points. Gaziantep, which was already more developed than Adıyaman and Kilis in 2004, outscored these cities in this period. While Eskişehir and Bursa in the TR41 region have pretty similar development levels and performance, another city from the same region, Bilecik, develops 30 points less in 10 years and the difference between Bilecik and the other two cities reaches 60 points.

4. Conclusion

In these last couple of years, it is aimed to reduce the regional disparities by newly founded development agencies. It is clear that the development policies applied in some Western and Central Anatolian regions were successful. However, the development problems in the East and Southeastern Anatolia, where the regional policies reflect upon the most due to these regions having the most troublesome cities, seem to be continuing and the development level differences between these cities and the Western cities seem to be increasing instead of decreasing. Istanbul, which is the socio-economic capital of Turkey, has developed more than the other cities in the last couple of years. Outside of a few exceptions, this situation causes a gap between Istanbul and other cities. In the NUTS level-2 regions consisting of cities which are thought to have similar development levels, it becomes evident that the target of reducing the inequalities within the region was mostly unsuccessful. In fact, one might even say that the differences increasing in some regions have reached a point where their pre-specified regions might need to be re-arranged. When we take these points into consideration, it is safe to say that the policies that aim to reduce the interregional and regional imbalance in Turkey, despite having a few successful examples, failed especially within the troublesome regions. The developments occurring in the regions of the East and Southeastern Anatolia after the period subject to analysis worry that this situation might have gotten even worse.

Keywords: Regional Development, Regional Imbalances, Regional Policy, Development Index, Principal Component Analysis

Jel Codes: R11, R58

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Evaluation of E-Finance Implementations in terms of Financial Principle in Taxation and A Field Research for Determination of Its Influence on Tax Compliance: The Case of Tokat Province*

Gamze Çimen¹

Introduction

Tax has a deep-rooted history as much as history of humankind and it as a strong tie between the state and citizen. In this century, we are going through, along with the globalization and increasing population as well, the duties and responsibilities of the state in the new economic order have increased. Tax in the fulfillment of these duties and responsibilities; has the most significant, a wide field by scale and because of being a certain source of income, plays an effective role. Hence for state to make a successful taxation, it needs to increase its citizens' compliance with tax by making healthier and better relations with them. Redefinition of an approach based on innovation in the information technologies has accelerated in Turkey in the 2000s, e-implementations have become policies of the state. In this study, e-finance which is one service of the e-state implementations is taken into consideration, and to determine its contribution in terms of economy in taxation, research is being conducted within the framework of survey application made for public accountant and financial advisors.

1. Tax and Tax Compliance

Tax is a significant instrument which is used for the implementation of the most important public finance instrument and finance policies in the science of finance; and it is a gratuitous, mandatory, and final payment made to state to ensure financing of public services and to take precautions which are required due to the socio-economic conditions of the country's economy (Selen, 2011: 313). When Tax compliance is considered, what is understood is accurate maintenance of records of tax payers that belongs to their tax transactions, submission of tax declarations within specified period, accurate calculation of tax obligation and payment of these obligations within period which is specified in the law and fulfillment of responsibilities of tax payers (OECD, 2008: 9). Silvani and Baer (1997: 12), have defined the tax compliance as; *"Declarations of tax and relevant information made by the taxpayers under their self-assessments, fulfillment of tax responsibilities and full and timely payment of tax without any coercive implementation"*. Problems that occur while providing compliance with tax, are as old as taxes (Andreoni et al, 1998: 818). In this respect, tax compliance is a very significant term for the tax administrations (James and Alley, 2002: 29). By utilizing internet and technologic capabilities for the taxpayers in Turkey implementation to carry out the further transactions in a faster time and easy manner; applications such as e-declaration, e-

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book, e-invoice were activated, hence it was aimed to increase tax compliance by utilizing information technologies (Şentürk, 2014:135).

2. Financial Principles of Taxation

Economy principle is called collection principle with minimum cost as well, refers to charge the highest tax income with a minimum cost (The one quoted from Dileyici, Uruş 2014:134), having the lowest possible tax costs for tax office and taxpayers. Ensuring principle of economy depends on minimization of payment and collection costs which are undertaken by the parties of tax during the taxation process. Compliance with the principle of economy will also serve to the establishment of tax consciousness because administration serve as the financial attitude in taxation processes (Demirli, 2011: 27).

3. E-Finance Applications as a E-State Service

Ministry of Finance in Turkey, is one of the state institutions that use the e-state applications for the first time and in the most effective way. Applications of the E-finance related to taxation within the scope of E-state; Budget Management Information System, Say2000i, Tax Office Automation Project; VEDOP I, VEDOP II and VEDOP III are among the most significant projects (Yavuz and Çarıkçı, 2009: 14).

Along with the developing speed of internet, innovations occur in information gathering devices and internet systems, citizens can have a rapid and on site access to the information and services provided by institutions and especially public institutions and organizations, and these developments provide the capability of information and service centralization through internet-enabled computers. (Başar and Bölükbaş, 2010: 158). Active use of technological capabilities by Revenue Administration in the works and transactions within the scope of e-state emerges as follows; automation application, tax management in the electronic environment, access to internet, use of the banking systems, briefly e-finance applications (Yaman, 2008:63).

4. Research Methodology

4.1. Research Objective

In this study; level of use of e-finance applications, to what extent these applications affect the economy and compliance in terms of taxation were tried to be determined along with the survey implementation made for public accountants and financial advisors.

4.2. Scope, Methodology, and Limitations of the Research

Nature of the research is consisted of public accountants and financial advisors that operate in province of Tokat and its districts. For the number of required examples within the scope of survey implementation, Smmm list was achieved from Tokat union of chambers of certified public accountants and sworn-in certified public accountants of Turkey (TURMOB) and a

survey was made with 136 public accountants and financial advisors who are volunteered and can be accessed. Survey made for the public accountants and financial advisors is consisted of three parts of 29 questions as follows; 7 questions related with evaluations of participants for e-finance implementations, 9 questions that include demographic information and five-unit Likert scale expressions. Frequency Analysis, Factor analysis, T test and ANOVA test statistics of SPSS 21.00 Package software were obtained during this study.

4.3. Findings

It is observed that the majority of those who were surveyed accordance with the outcomes of the conducted frequency analysis; male, 69,80% age range of 31-51, got a training at a level of higher education and married and when the monthly incomes of them were considered, it is observed that most of them are at the limit of 4000 TL, 6000 TL and 8000 TL. This situation can be interpreted as they have a sufficient income depending on the working densities of the members of a profession. From the members of profession who has 10 years or more of work experience (majority), numbers of taxpayer are as follows 8,80% 1-24, 19,10% 25-49, 30,90% 50-74, 19,10% 75-99 and 22,10% is more than 100. Also as a result of the analysis It was observed that only a profession has a sworn title.

Validity and Reliability of the Scale; Factor analysis was made to determine the sub-dimensions of e-finance applications. In the achieved outcomes; Values such as KMO value 0,776 and Barlett test score 0,000 were found. Accordingly, sufficiency of the samples in the research is adequate for the use of factor analysis.

As a result of factor analysis, 6 main factors were formed and these 6 factors describe %62,618 of total variance. When the factors are evaluated separately; Factor 1: Factor named "*Efficiency in Tax Collection*" is the biggest part of total variance independently from other factors (25,710%), Factor 2: Factor named "*Time and Cost Saving*"; 11,091% of total variance, Factor 3: Factor named "*Questions for E-implementations*"; 7,709% of total variance, Factor 4: Factor named "*Transparency and Economy*" defines the 6,660% of total variance, Factor 5: Factor named "*Informatics Infrastructure*"; 6,313% of total variance, Factor 6: Factor named "*Ease of Operations of Tax*"; describes the 5,136% of total variance.

5. Conclusion

Ensuring information sharing between the public institutions via e-mail applications, actualization of reliable and fast service provision that would not require the presence of taxpayer in the tax office, reduction of the work load and it is aimed to have transparent and efficient tax management that ensures more efficient and effective work of the staff. Tax payers following their works and transactions related to taxation via single system, prevention of complexity in the tax operations both for tax office, member of profession and taxpayer himself/herself, is significant to achieve the desired outcome in a fast and simple manner that could be understood by everyone.

According to research findings; generally, members of profession have highlighted that they make a great saving along with the e-finance applications in terms of time and economy, however it is seen that they faced problems due to several disruptions occurred in the links that arise from their habits. In this regard, consideration of requests and opinions 'of members of profession that play an active role in the collection of taxes which consist the basic of public revenues through e-finance applications' by the Ministry of Finance which is the main owner of

e-finance applications, has a critical significant to provide economy for the successful use of these applications, to fight against grey economy and tax loss and tax evasion.

Keywords: Tax Compliance, Economic Policies of Taxation, E-Finance Applications, SMMM.

JEL Codes: H20, H21

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Digitalization in Tax Applications: A Review on Protection of Personal Data and Right to be Forgotten

Aylin Armağan¹

1. Introduction

Throughout the taxation process, the state acquires personal information of taxpayers, and sometimes third persons who are not part of the taxation relationship. Perhaps the most comprehensive data on which information is stored about individuals is taxation. Tax information includes information on all taxpayers' expenses, income, financial statements, tax credits and tax penalties, including real and legal persons. With the new regulations, it has been decided to publish this information on the internet. The purpose of this study is to examine the link between these new regulations and tax law and information technology and to discuss these innovations within the right of individuals to information and the right of taxpayers to protect their personal data.

2. Legal Framework

To understand the right to information and its implications in tax law, the provision of international law, the Constitutions of 1961 and 1982, Right to Information Act, and the Tax Procedure Law, which regulates tax privacy, must be examined

2.1. Tax Confidentiality

The necessity of the concept of tax confidentiality is based on the vertical relationship between the individual and the state, which is the nature of the tax law. Authority of taxation allows state to obtain detailed personal information of taxpayers. In practice, the revenue administration is authorized to reach all kinds of information about the taxpayer or to request this information from the taxpayer. The concept of tax confidentiality, which protects the secrets of these related individuals arising from tax law and determines the limits of this protection, was needed.

It is accepted that if the disclosure of tax information is aimed at preventing tax loss and it is provided within certain conditions, it does not constitute a criminal offense of tax privacy. In accordance with this, some exceptions have been introduced to the tax confidentiality.

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3. Administrative Approach

3.1. Tax Announcement

The tax invoices stated in the 3rd paragraph of Article 5 of the Tax Procedures Code are the declarations of the income tax of the taxpayers, the taxable profits of the capital companies, and the taxable profits of the corporations. This provision does not define any discretionary powers to the tax administration by saying "it is declared". However, this declaration is not held in every tax office. In this sense, it is possible to say that law and practice differ from each other.

3.2. Announcement Of Tax Record Holders List

The Ministry of Finance lists the taxpayers of the highest income and corporation taxpayers belonging to the accounting period of that year on a provincial basis and in Turkey throughout the year. There is no legal basis for this practice, also known as the Tax Record Holders List. So much so that the tax administration announces the names of those who accrue the highest tax every year with their permission. On the other hand, the law administration has been tasked with declaring the taxpayers' base and accruals.

3.3. Announcement of Tax Debtors

According to the provision issued in the fourth paragraph of Article 5 of the Tax Procedure Law, the unpaid taxes and debts in case of a valuation can be explained by the Ministry of Finance.

4. Protection of Personal Data in Tax Laws in the light of New Regulations

The results of taxpayers' income and corporation tax base publishing on the website of the department of income administration should be examined as a result of a dual separation. It is possible that this practice will allow the community to better control each other, raise public pressure on those who do not pay tax, and become aware of the community's tax duty. This application can have positive results within this aspect.

However, the point that should not be forgotten is the impossibility of deleting a data which is put on the internet. The uploading of data to the internet makes it very easy to save, copy and transfer these data to different places. Individuals 'right to determine the future of their information' and 'right to be forgotten' can be threatened.

5. Conclusion

Considering the right to information in the face of tax confidentiality, it seems that these two rights sometimes come before each other. Only one of these rights can not be attributed to the fact that the right to information provides the principle of

transparency of the democratic state, while the privacy of the tax prevents the transparency of individuals against the state. In the case of disputes in this regard, the concept to be used for the solution must be a public benefit and a balance must be established between the rights.

Key Words: Tax Secrecy, Right to Information, Right to Be Forgotten, Protection of Personal Data

Jel Codes: K30, K34

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Tax Compliance and Denunciation Mechanism: An Experimental Study

Emre Özyerden¹

1. Introduction

Tax compliance has been studied frequently in the field of experimental economics in recent decades. In these experiments, participants are asked to report their individual experimental incomes in order to be reduced by a certain ratio, representing tax; and those who are revealed to be underreporters after random audit are fined.

In this study, efficiency of a denunciation (or whistleblowing) mechanism is tested in a tax compliance experiment. Standard tax compliance experiment consists of 3 stages. In the first stage, each participant completes a task that determines their experimental income. In the second stage, participants are asked to report their income in order to be reduced. In this stage, participants can report any amount; however, in the third stage, participants would be randomly audited and non-compliers would have to pay the full tax and a certain amount of fine. These stages are repeated for several rounds, and the design can be modified in each round in order to represent mechanisms that are studied. These modifications would be tax rate, audit frequency, fine magnitude, or whistleblowing.

This study aims to test the efficiency of denunciation mechanism in tax compliance. An experiment was conducted with undergraduate students. The reward medium in the experiment is grade points for a certain course.

2. Tax Compliance Experiments

Experimental tests of tax compliance starts with Friedland, Maital, and Rutenberg (1978). Utility maximizer taxpayer models of Allingham and Sandmo (1972), and Yithzaki (1974) were tested with an experimental design similar to the one mentioned above. The results show that compliance rises with fine magnitude (as expected by the models), but declines with tax rate (unlike expectance). Starting from this experiment, laboratory experiments tests how tax compliance differs under different conditions.

Findings in these experiments Show that compliance rises with audit frequency. Compliance is higher than expected utility theory predicts, and this is considered to be due to that participants overweigh audit probability. Compliance is positively correlated with fine magnitude and income, negatively correlated with marginal tax

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rate. Individuals behave according to what they anticipate the social norm (compliance or not compliance. See Torgler (2002) and Fonseca and Myles (2011) for a comprehensive review.

3. Denunciation Mechanism and Experiment

Another important issue in tax compliance is denunciation mechanism. In Turkey, legislation is operative for denouncers against tax evasion with the code no. 1905.

3.1. Tax Compliance and Denunciation

To our knowledge, the only paper experimentally testing denunciation (whistleblowing as it called) is Breuer's (2013). In his experiment, each participant observes income declaration of another random participant, and decides to blow whistle for underreporters. Breuer observes that whistleblowing rises with monetary incentives, and similarly compliance rises with monetary incentives for whistleblowing. In the paper, it is also found that in terms of total tax revenue, high monetary incentives for whistleblowing are more efficient than low or no incentive conditions. Our study aims to consider different aspects of denunciation.

3.1. Experimental Design

In this study, in addition to the *Base* treatment mentioned above, there were 4 treatments. In the *Public Goods* treatment, participants played a basic Public Goods Game in a group of 4 with efficiency factor of 1.6. In the *PG-Random* treatment, subjects played the same Public Goods Game, however at the end of each period, there was a random audit stage where contributions to Public Goods of randomly selected participant(s) is observed, and in case of a incomplete contribution, a fine was imposed. In *PG-Whistleblowing* treatment, in addition to the Public Goods Game, subjects indicated a threshold – a ratio of Public Goods contribution and actual income-, which then is selected for audit threshold for the other members of the group. Any member(s) of the group with a contribution-income ratio below this threshold was audited and fined. Subjects own threshold is not considered for himself/herself. This threshold represents the whistleblow threshold of participants. Finally, in *PG-Random+Whistleblowing* treatment, there were both a random audit, and an audit according to whistleblow threshold, as explained above. In this treatment, although some subject(s) may have been selected for audit due to both random and whistleblow threshold, the fine has been applied once, in case of under-contribution. Our study differs from that of Breuer (2013) in the following aspects:

1. A reason for denunciation mechanism is that tax evasion leads free-riding. In order to represent this situation, our experiment includes treatments where reductions from reports (tax revenues) are linked to a public good, which in turn leads to an increase in participants' payoffs. In these treatments,

effectiveness of whistleblowing mechanism under free-riding situations is tested.

2. There is a distinguishment between audit due to whistleblowing and random audit.

4. Experiment and Results

The experiment was conducted in late April 2017, in Hitit University Computer room. All 28 participants were Public Finance undergraduate programme students. Participants earned up to 12 points for their “Turkish Economy” course final exam according to their decisions and chance. 16 participants took part in *Base* treatment, and 16 participants took part in all other treatments. The experiment was programmed in z-Tree version 3.6.7 (Fischbacher, 2007). Subjects completed a simple task and earn their individual income at the beginning of the experiment, and then they choose to report or contribute to a Public Good according to this task income. Tax rate was 40%, and fine was (in addition to the full tax) half of the unreported (or not-contributed in Public Goods treatments) income. Audit frequency for random audit was 12.5% for all Public Goods treatments, and 20% or 14.3% for *Base* treatment. Subjects repeated each treatment 5 times (periods). They are paid for only one session of a treatment, which was randomly selected at the end of the experiment.

On average, the highest compliance rate (contribution to Public Good in Public Goods treatments, or reported income in *Base* treatment, divided by their task income) was in *PG-Random+Whistleblowing* treatment (45.2%), and the lowest compliance was in *Public Goods* treatment. This result shows that punishment is effective, and mere public good has no appeal for our subjects.

We also find that there is no relation between whistleblowing threshold and own report ratios of the subjects. Thresholds for denunciation were 66.8% and 75.9% in *PG-Whistleblowing* and in *PG-Random+Whistleblowing* treatments respectively. On the other hand, average compliance rate in all treatments were 27.9%. Moreover, correlation coefficients between own report ratio and own declared threshold were -0.13 and 0.14 in *PG-Whistleblowing* and in *PG-Random+Whistleblowing* treatments respectively.

Lastly we found that average group compliance rate increases throughout periods in *PG-Random+Whistleblowing* (from 13.7% to 24.9%) and in *PG-Whistleblowing* (from 8.2% to 16.5%) treatments, though it decreases in *Public Goods* (from 13.4% to 5.6%).

Our experimental results show that social aspect of tax compliance decision is ineffective: self-interest is dominant in Public Goods game without punishment. However, introduction of a fine and particularly fine due to denunciation increases contributions.

Key Words: Tax Compliance, Experimental Economics, Denunciation Mechanism

JEL Codes: H26, C91

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Is the Intergenerational Tax Awareness Becoming Different? A Research on Generations X and Y

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1. Introduction

The state offers public, semi-public and private goods and services to meet social needs. The most important financing source of expenditures that the state have made while presenting these services are taxes. The state collect taxes from its citizens based on the right to sovereignty. In the 73rd article of our Constitution, the tax concept begins with the sentence "Everyone must pay taxes according to their financial power to finance public needs". As it can be seen, the state receives taxes from all its citizens without regard to any class difference. However, the tax perceptions of citizens may exhibit differences at this point. These differences can also be linked to generations shaped by the changes taking place throughout the world. Differences in perceptions, attitudes, values, opinions and behaviors between generations are remarkable. These generation gaps are also reflected on perceptions and attitudes towards tax awareness. In this study, it was tried to be determined what kind of perception of tax awareness of generations X and Y, who have their own specific characteristics, value judgments and attitudes, have, and how this Awareness differentiated.

2. The Concept of Tax Awareness

Taxes are the most important source of financing for meeting social needs. One of the most vital issues with regard to the efficiency of taxes included in our tax system is for tax awareness to be completely preconceived by taxpayers. As is known, tax Ssense, it is a concept expressing the sum of all positive and negative knowledge and perceptions that the taxpayer has on taxes (Demir, 2013:108). Taking a look at the finance literature on tax awareness, , unilateral definitions are made generally. These definitions are usually in the form of positive attitudes that taxpayers have on taxes (see Taytak, 2010:498; Sağlam, 2013:319; Ömürbek, Çiçek&Çiçek, 2007:104; Organ & Yegen, 2013:243; Egeli&Diril, 2014:35). However, attitudes of taxpayers with high tax awareness may be negative as well. Taxpayers with high tax awareness, too, will endeavor to evade taxes or to legitimize inclinations towards tax evasion (Demir&Ciğerci, 2016:128).

3. Generations and Their Characteristics

The generation concept stands for a community of people who live within the same time frame, who have common and similar experiences, and who are alike due to these experiences of themselves (Çelik et al., 2004: 191). The political, economic, cultural and social changes that

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societies experience over the years also affect the perceptions, attitudes, values and behaviours within the period. It is seen in the literature that time intervals formed by these changes are described as generations (Lower, 2008). One of the most important discussions on generations is to define the generation concept and time intervals. In this study, based on the common recognition in the literature, a classification is used, which has been set forth as; 1925-1945 Silent Generation, Baby Boomers between 1946-1964, 1965-1979 Generation X, Generation Y between 1980-1999, Generation Z from the year 2000 on.

Silent Generation (1925-1945): Although they are few in today's business life, this generation is considered to be laying the foundations of today's business life. Mostly witnessed to war periods, this generation has been exposed to conditions such as economical problems, famine, unemployment and saving on expenses. They remain in the same job for a long time due to their nature obedient to the order, loyal to the authority, disciplined and adaptable, and tend to work for a lifetime in that job (Adıgüzel et al., 2014: 171).

Baby Boomers (1946-1964): The one billion babies born during the "exploding population" years right after the World War II are called "Baby Boomers" (Keleş, 2011: 131). Giving importance to participation, team work and team meetings, the members of this generation think that commitment to work is measured by the number of hours during which work takes place (Çetin Aydın & Başol, 2014: 3). The baby boomers generation, which has high feelings of loyalty, attracts attention with their characteristics of austerity and being distant from technology (Taşlıyan et al., 2014: 20).

Generation X (1965-1979): Compared to previous generations, this generation is defined as one that can maintain work-life balance; that is more independent, autonomous and self-confident (Demirkaya et al., 2015: 192). Members of Generation X are known as individuals who are loyal in their business life, have a high sense of conviction and have worked for many years in the same job. Starting to use technology as a necessity because of coming across the technological revolution, members of Generation X are sensitive to social problems, have high job motivation and respectful to the authority (Çetin Aydın & Başol, 2014: 3).

Generation Y (1980-1999): The first trait of the members of this generation, who have a nature of questioning everything, that comes to the mind is their inclination to technology. They are able to carry out multiple tasks simultaneously, and desire to spend time to improve relationships and to socialize (Keleş, 2011: 131). Generation Y wants specifically to be a part of a team, and to be a centre of attention at the same time (Taşlıyan et al., 2014: 21).

Generation Z (from 2000 on): This generation is also called the "generation of the internet", and defined as the generation with the highest level of motor skill synchronization in human history (Demirkaya et al., 2014: 190). Not completely joined the business life yet, Generation Z draws a profile that is dependent on technology, hasty, creative; that has multiple attention and multiple decision making ability, and demands everything quickly and consumes instantly (Altuntuğ, 2012: 206).

4. Methodology

Senior students, academicians and administrative staff of AfyonKocatepe University Faculty of Economics and Administrative Sciences constitute the sample of this study. In this sample; students, academicians and administrative staff born in 1980 or later represent Generation Y, while academicians and administrative staff born before 1980 represent Generation X. In accordance with the purpose of the study, senior students are included in the sample for having taken theoretical courses related to tax awareness. In order to measure the

perceptions on tax awareness of participants, members of Generations X and Y, comprising the sample, researches conducted under the title of "Tax awareness" in the literature and the questionnaires used in these researches were examined. A questionnaire was prepared by examining in accordance with the purpose of the study the questions commonly used for determining tax consciousness in the literature, and it is used as a data collection tool. In the light of the collected data, statistical analysis were performed by taking into consideration not only generations, but also basic variables such as age and gender.

5. Conclusion

As a result of the conducted statistical analysis, it is observed that there is a significant difference between tax awarenesses of Generations X and Y forming the sample. In addition, significant differences were encountered also in statistical analysis carried out by taking different variables into consideration. This study presents the differences in tax awarenesses, with regard to generations, of senior students, academicians and administrative staff of AfyonKocatepe University Faculty of Economics and Administrative Sciences. Since the results obtained are limited to the sample of the research, they cannot be generalized to all academic and administrative staff working at, and all students studying at AfyonKocatepe University. Project works still continues for the study to be carried out in larger samples.

When the related literature is examined, it is seen that many studies have been conducted that focus on the characteristics, similarities and differences, values, perspectives on work and working of generations. In this study, unlike other studies, it has been inquired whether tax awarenesses of generations X and Y exhibit differences. There exists many studies in the literature written in Turkish on tax awareness. However, no similar study assessing tax awareness with regard to generations has been found. Being planned to be extended over a larger sample and having the feature of being a pilot research, this study is expected to contribute to the tax awareness literature with a different perspective, and to lead the way for studies focusing on differences between generations.

Keywords: Tax awareness, Generation, Generations X and Y

Jel Codes: H29, M10, M12

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The Dilemma of Metropolization and Fiscal Decentralization

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1. Introduction

Important political, administrative and economic changes occurred in Turkey and the world in the last 50 years, especially during post-1980 neo-liberal era. Decentralization, rapid urbanization and metropolization processes that emerged by means of these changes have boosted authority, spending and responsibility of local governments. Local governments gradually came to the fore in the process of service delivery. However, especially, allocation of self-income and resources to local governments have not shown a similar level of increase. In this study, this dilemma is analyzed in cases of municipalities in Turkey.

The purpose of this study is to reveal the contradiction between the increased burden of duty and income of the municipalities. By this way, it is aimed to provide a scientific basis for policy makers in solving self-income problems. In this context, the situation of the municipalities in Turkey has been analyzed. The case is studied with both theoretical and numerical data and the problem has been clearly demonstrated.

2. Trends of Fiscal Autonomy, Fiscal Decentralization and Decentralization

Although a single, universal and unique definition cannot be made, decentralization is generally defined as the transfer/assignment of decision-making responsibility, power and authority of resource creation from higher level administration (central government) to lower levels of administration (regions, local governments and NGOs) (Cheema & Rondinelli, 2007: 1, Leung, 2004: 1, Edquist, 2005: 9, Yuliani, 2004, Hinsz vd., 2006: 2, Eryılmaz, 2002: 225). According to the definition of Litvack ve Seddom (1999: 2) and World Bank, decentralization is the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector (Keskin, 2008: 2).

Fiscal decentralization forms the financial aspect of devolution to regional and local administrations. Moreover, European and American writers use terms like “central-local (or intergovernmental) financial relations” and “fiscal federalism” in order to refer to fiscal decentralization. The first phase of fiscal decentralization is the division of spending responsibilities and revenue sources between levels of government

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(national, regional, local etc.). The second phase is the amount of discretion given to regional and local governments to determine their expenditures and revenues (both in aggregate and detail). This discretion gives regional and local governments the ability to determine their budgets by levying taxes and fees and allocating resources (Davey, 2003: 1). The essence of fiscal decentralization is the authority and responsibility of subnational governments to finance their local services to a certain extent (Ebel & Yılmaz, 2002: 34). In other words, fiscal decentralization occurs when higher levels of government cede influence over budgets and financial decisions to lower levels (Sharma, 2008).

Decentralization and fiscal decentralization trend that has developed in the framework of thinking that local governments should be strengthened has also created the infrastructure of financial autonomy. Fiscal Autonomy aims to enable local governments to have adequate, healthy and sustainable resources in order to ensure the institutionalization of democracy and effective implementation of their services. In that framework, it is defined as local governments' fulfillment of their duties and responsibilities independently from the center. To achieve this aim, local governments manage/spend assets and resources in line with their laws (in accordance with the interests of the local population). They also make budgets and borrowings (Ulusoy & Akdemir, 2009: 260-265, Yontar & Dağ, 2014: 150, Çelik, 2013: 22).

3. Increased Responsibility of Municipalities as a Result of Urbanization and Metropolization in Turkey

The urbanization rate was very slow in the early years of the Republic of Turkey. The population living in rural areas began to migrate to urban areas in the 1950s due to improvements in transportation infrastructure, change of the land ownership regime, mechanization and modernization of agriculture, technological developments, increase in industrialization, and other economic/social changes. In particular, migration to cities increased in line with the population growth. This accelerated the need for better highway networks and settlement areas, and new housing (Tosun, 2015: 202-203, Şahin, 2013: 79). There have been serious population increases in cities such as Istanbul, Izmir, Adana, Ankara and Bursa. This trend caused significant problems in terms of urban services in these cities (Keleş, 2009: 289). Local governments and especially municipalities took on the most important tasks of on-site analysis of the mentioned problems and solving them with practical - permanent proposals.

4. Comparative Analysis of Revenues and Expenditures of Municipalities in Turkey

Municipalities became center-dependent units from financial, political and administrative aspects. It is mainly due to inefficient income structure that is dependent on central transfers, not on self-income. It is clear that this situation causes many negative effects on the functioning of municipalities. However, inadequacy of self-income or dependency needs to be demonstrated with numerical data in order to

see the adverse trend in a concrete way. This enables a comparison in an international scale and identification of appropriate sample countries for the planned changes for these comparisons. Furthermore, it becomes possible to analyze financial interdependence among different municipal levels and all municipalities. Through detailed assessments, the dilemma between metropolization and fiscal decentralization in Turkey has been put forward in this study.

5. Basic Financial Problems of Municipalities in Turkey

The main financial problems of the municipalities can be listed as lack of sustainable revenue sources, ineffective use of available resources, over-dependence on shares transferred from general budget tax revenues collection, inadequacy of self-income sources (Yüksel, 2004). Because of these financial problems, there are many negative situations faced at the local level.

6. Conclusion

There is a trend of urbanization and metropolization in Turkey. 93% of the total population lives within the municipal boundaries. 84% of the population within municipal boundaries is within the borders of the metropolitan municipalities. Metropolitan municipalities have the highest burden of responsibilities. Then comes the provincial municipalities, district and town municipalities. However, amount of incomes is in the opposite order. This situation, prevents municipalities from enjoying the benefits of fiscal autonomy and fiscal decentralization. Instead, they become highly dependent on the central government. To get rid of this dilemma, a three-stage policy must be followed. Firstly, efficiency in spending should be achieved. Secondly, steps should be taken to make the most out of available income sources. Finally, municipalities should be provided with new sources of revenue in order to get rid of the fiscal dilemma. While these steps are being taken, rather than applying a general method, political characteristics and administrative, economic, cultural of Turkey should be taken into consideration and Turkey-specific system should be established.

Key Words: Metropolization, Urbanization, Fiscal Decentralization, Municipality

JEL Codes: H71, H72, O1

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Financial Autonomy Problem in Local Governments

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Erdem ERCAN²

1. Introduction

It is observed that the administrative and financial autonomy of local governments, which often come up as one of the problems to be solved in recent years, stays often in the shadow of political autonomy debates. However, there is no relation between political autonomy - which means federation- and administrative and financial autonomy, which is the natural result of the decentralization.

Local financial autonomy, which is a component of local administrative autonomy (Ercan, 2016: 47), in short, can be defined as a freedom in which local governments generate revenues proportional with their duties and spend them in order to do the public services in their own responsibility (Özkök Çubukçu, 2008: 102). Minimum requirements about this freedom are set out in Article 9 of the European Charter of Local Self-Government, the most important international reference text on this issue.

In this work, primarily, it will be given place the expenditure and self-income levels of local governments in the developed countries, financial autonomy implementation in France will be evaluated whose administrative structure is taken as an example for Turkey and financial autonomy levels of special provincial administrations and municipalities will be determined which are the main local governments in Turkey. Then proposals will be made in order to expand financial autonomy.

2. Expenditure and Self-Income Levels of Local Governments in Developed Countries

In countries where local governments are strong, the share of local government expenditure within total public expenditure can be considerable. This rate is 24.3% in the EU, while it is 65% in Denmark, 49% in Sweden, 33% in Holland, 31% in Italy, 27% in United Kingdom, 25% in Spain, 21.5% in France, 17.5% in Germany, 16.2% in Austria, 13.5% in Belgium and 6.5% in Greece. (See Table 1, Subnational public finance in the European Union, 2012: 24). The same ratios are at 58,7% in Japan, 23,5% in Switzerland (see Ulusoy & Akdemir, 2017: 154, 186) and 21% in the USA (Arslan & Biniş 2014: 153 from Sellers & Lindstörn 2007: 617). It is approximately 11% in Turkey. (Obtained from the budget data of 2015 in the web addresses of kalkinma.gov.tr and muhasebat.gov.tr).

The EU countries, which have higher expenditure rates are mostly unitary states such as Denmark, Finland, the Netherlands, and which have lower expenditure rates are federal states such as Germany, Austria and Belgium. Unexceptional low rates in the federal states are

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explained by the presence of federated states. (See Subnational Public Finance in the European Union, 2012: 24).

The most important indicator of fiscal autonomy is the ratio of local government self-incomes to total income. As self-income ratio increases, financial autonomy expands. As it can be seen from Table 2, which shows the level of self-incomes of local governments in some developed countries, this rate is 53% in Japan, 61% in Italy, 63% in Germany, 69% in USA, 71% in France, 89% in Switzerland.

3. Local Autonomy in France

In France, known for its strong centralist tradition and set a model in the administrative structure of Turkey, as a result of the reforms that began in 1982 and the constitutional amendments that took place in 2003, centralized tutelage supervision over local administrative decisions was limited to jurisdictionally supervision. Thus, freedom of decision and action is expanded. This development has brought freedom to the issues about budget, income and expenditure so that the local financial autonomy has been achieved through the increase of self-incomes (Ercan, 2016: 93).

As a matter of fact, according to Table 3, it is seen that the local government self-incomes are in the range of 60-70% and about 2/3 of the self-incomes are composed of the local government taxes collected by using the taxation authority.

When looked at six-year-self-income ratios between 2005-2010 for each type of local governments, it is seen that these ratios rise to 65% from 61% for municipalities, to 68% from 66% for the special provincial administrations, to 55% from 44% for the regional administrations as of 2010. (See Rapport du Gouvernement au Parlement pris en application de l'article 5 de la loi organique n° 2004-758 du 29 juillet 2004 et relatif à l'autonomie financière des collectivités territoriales, 2010: 28-30)

On the other hand, the budget of the local governments can be jurisdictionally supervised in the Regional Account Courts (Chambre Régionale des Comptes). And also illegal expenditure and use of income of local governments can be jurisdictionally supervised in the administrative judiciary. The Court of Accounts has no administrative tutelage supervision entitlement (Yildiz, 2012: 320).

4. Local Financial Autonomy in Turkey

According to Table 4, the total income ratio of donations and aid incomes of special provincial administrations is in the level of 68-69%. When the shares taken from general budget tax revenues are included, the ratio of transfer revenues of provincial special administrations to its total revenues reaches 90%, and the self-income level remains at 8%. The scarcity of self-income as well as the lack of taxation authority narrows fiscal autonomy.

The head and the executive body of special provincial administrations and the highest official in the provincial organization of the central government is governor. As a natural consequence of this, the administrative tutelage supervision of the central government on financial affairs and transactions such as budget and spending decisions exists actively and strongly by the governor's channel. According to this, it can be said that special provincial administrations are functionally far from being local governments.

The municipalities are in a better position. From Table 5 it is seen that the ratio of revenues received from general budget tax revenues is 41-44% of the total municipal income. If the donations and aids are considered to be 2-3%, the ratio of transfer incomes of the municipalities to the total incomes is 47% as of 2014 and the ratio of their self-incomes are over the special provincial administrations' by 53%. Transfer revenues are unconditional as equalization payments.

Furthermore, contrary to the provincial special administrations, there is no serious restriction on budget making and expenditure decision (freedom of decision and action) because the mayor is chosen by the local people themselves. There are also local government taxes where taxation transactions are partially or fully implemented by local governments. These qualities carry municipalities to the highest level of financial autonomy in our country.

In the metropolitan municipalities the situation is different in terms of income level. According to Table 6, the ratio of general budget tax revenues to total income is 67%. The self-income level is 33%, which is lower than other municipalities'. The ratio of self-incomes of the municipalities to the total incomes is 43-44% by 2014 (See Table 7). Despite this, provincial municipalities demand to be metropolitan municipality. In other words, the need for income (expenditure) which is proportional to the duties of the municipalities is greater than the need for self-income. (Ercan, 2016: 174) It can be understood from that local government expenditures are not in sufficient level and need to be increased.

5. Conclusion

The main obstacles in reaching the financial autonomy within the framework of the European Charter of Local Self-Government in Turkey are the scarcity of the self-income and the administrative tutelage supervision over the special provincial administrations in particular.

To solve these problems; it is planned to make these proposals:

- 1- Making a change in Article 73/4 of the Constitution by giving authorization to local governments in order to determine the tax rates while protecting the upper and lower limits laid down by the law and providing the taxation of some taxes like motor vehicle taxes which can be applied as local governments so as to increase the self-income and expenditure levels of the local governments.
- 2- Making an amendment of the 5302 numbered law to ensure that a provincial general assembly member to be elected by the same assembly instead of governor which is the head and the executive organ of the special provincial administrations.
- 3- Putting an end to the conditional aids which are being given by the central government to special provincial administrations and switching to the equalization grant implementation as in municipalities.
- 4- Transforming the administrative tutelage supervision of central administration and the Court of Accounts on the budget and expenditures into judicial supervision, apart from exceptional cases.

Key Words: Local Autonomy, Local Governments, Decentralization, Local Autonomy

JEL Codes: H71, H72, K34

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Measuring and Evaluating the Financial Condition of the Municipalities in Turkey

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1. Introduction

Financial condition can be defined as the power to meet the financial obligations of an institution on time. If an institution is able to meet its financial obligations without experiencing a significant financial difficulty, such as if it can pay personnel costs or borrow comfortably, it is assumed that the financial situation is strong (Wang et. al., 2007: 3). The fact that the financial condition is unstable means, on the other hand, that there are problems both in terms of quantity and quality in the service delivery (Honadle et. al., 2004: 1). The fact that the financial condition is weak is a factor that increases the probability of encountering crises in the public sector (Groves et. al., 1981: 5). Therefore, the financial condition should be measured and monitored constantly.

The Public Financial Management and Control Law No. 5018, which emphasizes the concepts of financial discipline, financial control, accountability and performance in the public financial management has predicted the implementation of an accounting system in line with the international standards. Consequently, the accrual-based accounting system has been introduced and many financial statements that are conducive to understanding the financial condition of a public administration have begun to be produced.

In this paper, it was aimed to measure and evaluate the financial condition of municipalities in Turkey based on various financial indicators. The monitoring of the financial condition of the municipalities, whose powers and responsibilities increase within the framework of the decentralization principle, is of great importance especially for the top management of the municipalities, the citizens living on the municipal boundaries and the central government.

2. Methodology

There are different ways of measuring the financial condition in public institutions. Brown (1993: 21-22), for example, developed a 10-point test approach for

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municipalities under the population of 100,000. He suggested 10 key financial ratios related to municipal revenues, expenditures, operating position and debt structure for municipal officers to use in assessing their cities' financial condition. The Financial Trend Monitoring System (FTMS), developed by The International City / County Management Association (ICMA), has 36 indicators and is a five-year trend analysis (Honadle et. al., 2004: 160). Wang et. al., (2007), on the other hand, measured the financial condition of 49 US states with a four-dimensional scale. In this study, a total of 11 indicators, 3 for cash solvency, 2 for budget solvency, 3 for long-run solvency and 3 for service solvency, and a Financial Condition Index was created based on these four dimensions. Clark (2015) applied the same set of indicators to the 117 largest cities in Ohio.

In our paper, we preferred to use the four-dimensional financial condition index used by Wang et. al., (2007) (See Table 1).

Table 1. Indicators and Dimensions of Financial Condition

Indicator	Definition	Dimension
1. The cash ratio	$(\text{Cash} + \text{Cash Equivalents} + \text{Investments}) / \text{Current liabilities}$	Cash solvency
2. The quick ratio	$(\text{Cash} + \text{Cash Equivalents} + \text{Investments} + \text{Receivables}) / \text{Current liabilities}$	Cash solvency
3. The current ratio	$\text{Current assets} / \text{Current liabilities}$	Cash solvency
4. The operating ratio	$\text{Total revenues} / \text{Total expenses}$	Budget solvency
5. Surplus (deficit) per capita	$\text{Total surpluses (deficits)} / \text{Population}$	Budget solvency
6. Net asset ratio	$\text{Restricted and Unrestricted net assets} / \text{Total assets}$	Long-run solvency
7. Long-term liability ratio	$\text{Long-term (non-current) Liabilities} / \text{Total Assets}$	Long-run solvency
8. Long-term liability per capita	$\text{Long-term (non-current) Liabilities} / \text{Population}$	Long-run solvency
9. Tax per capita	$\text{Total taxes} / \text{Population}$	Service solvency
10. Revenue per capita	$\text{Total revenues} / \text{Population}$	Service solvency
11. Expenses per capita	$\text{Total expenses} / \text{Population}$	Service solvency

Source: Wang et. al., 2007: 8-9.

The above-mentioned 11 indicators in the study were calculated by using the balance sheets and the statements of operating results of 150 municipalities in Turkey for 2015. The higher the cash ratio, the quick ratio and the current ratio indicates the higher the cash solvency. The operating ratio and surplus per capita mean that the budgetary solvency is high. While the high net asset ratio indicates a high level of long-run solvency, the high long-term liability ratio and the high long-term liability per capita indicate that the long-run solvency is low. The low levels of tax per capita, revenue per capita and expenses per capita ensure that the service solvency is high (Wang et. al., 2007: 8-9). When the values expressed by these indicators are considered, the first six were used as they were, others were reversed. All indicators were standardized (z score was calculated). The standardized indicators were grouped

under four dimensions as cash solvency, budget solvency, long-run solvency and service solvency.

3. Findings

The descriptive statistical values of 11 indicators calculated according to the formulas in Table 1 are illustrated in the table below:

Table 2. Descriptive Statistics

Dimension	Indicator	N	Min.	Max.	Mean	Standard Deviation
Cash solvency	The current ratio	150	,21	11,31	2,0423	1,93716
	The quick ratio	150	,010	8,760	1,38173	1,515271
	The cash ratio	150	-,160	6,180	,60147	1,032362
Budget solvency	Surplus per capita	150	-4642,630	733,460	61,99413	412,589522
	The operating ratio	150	,160	2,490	1,22920	,322444
Long-run solvency	Net asset ratio	150	-1,910	1,000	,87427	,268661
	Long-term liability ratio (R)	150	,885	100,000	20,39531	26,028373
	Long-term liability per capita (R)	150	,000	,244	,01800	,028992
Service solvency	Tax per capita (R)	150	,001	,571	,03908	,081383
	Revenue per capita (R)	150	,000	,005	,00197	,000909
	Expenses per capita (R)	150	,000	,007	,00243	,001345

*(R) Reversed indicators.

The correlations between the indices of each dimension were statistically significant at 1% significance level.

Table 3. Spearman's rho Correlations

	Cash solvency	Budget solvency	Long-run solvency	Service solvency
Financial Condition Index	0,628**	0,559**	0,631**	0,645**

** p<0.01

When the correlation table above is examined, it is seen that there are significant relationships between the Financial Condition Index and the four sub-dimensions. This indicates that the financial condition index can be used in the measurement of the financial condition.

4. Conclusion

In the present study, the financial condition index used by Wang et al. (2007) was applied to the municipalities in Turkey. The results show that such a scale can be used to monitor the financial conditions of municipalities in Turkey. It is possible to make various analyses with the index values in the assessment and evaluation of the financial condition. For example, it was revealed in our study that there was a positive

correlation between the financial condition index and the municipality population ($r = 0.433$, $p < 0.01$). It is also possible to make separate evaluations for each of the 11 indicators that comprise the index. For example, the ideal of the current ratio is more than 1. If this ratio is less than 1, it raises the risk of the municipalities facing problems in meeting their short term obligations (Türkyener & Altıntaş, 2012: 140). In our study, it was observed that this ratio was less than 1 in 33% of the municipalities, 1-2 in 31.4 %, and above 2 in the remaining of 35.6%. In terms of this particular rate, it is understood that the financial condition of one third of the municipalities was not strong. In this paper, the financial condition of 150 municipalities was evaluated within the framework of ideal rates for all 11 indicators. As a result, the weaknesses and strengths of the financial condition of the municipalities were emphasized based on the data obtained from the accrual-based accounting system.

Consequently, it can be stated that the financial condition of the municipalities in Turkey can be monitored via such an indicator set and such measurements can also be used as an early warning system for the areas where the financial conditions are weak.

Key Words: Municipalities, Government accounting, Accrual-based accounting, Financial Condition, Financial Analysis.

JEL Codes: H61, H72, H83.

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Participatory Budgeting in Providing Local Democracy; The Perception of Bandırma and Çanakkale Municipal Administrators*

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1. Introduction

Participatory democracy is an approach based on the participation of citizens in the supply of public services and in decision-making processes in the public sector. The implementation of the participatory democracy in accordance with the budget right principle is dependent on the effective implementation of the participatory budgeting system. Participatory budgeting essentially requires democratic co-operation of citizens and their representatives. In this respect, the attitudes and behaviors of managers in the participatory budget approach at the local level become important. In the study, the attitudes and perceptions of the administrators of Bandırma and Çanakkale municipalities on the participatory budget were researched. Survey data were gathered by questionnaire technique. The semi-structured questionnaire consists of two parts: In the first part, the statements prepared to test the research model and in the second part questions about the socio-demographic characteristics of the dependent and independent variables in the study were included. As a result of the research, both a theoretical model of participatory budgeting will be tried to be achieved and a solution proposal which can be applied to all municipalities for the problems in implementation will be presented.

2. Local Democracy, Local Governments and Governance

2.1. Local Democracy

It is seen that the concept of democracy is of great importance at the local scale and that this concept has been used with "local" examples together with its increasing popularity. It is much easier to put values such as citizen participation, pluralism and accountability into practice in the local governments, which are the basic requirements of the democracy concept. Participation in local governments is higher and more direct than that in central government (Hill, 1974: 22-24).

* This study is produced from the thesis written by Erkan Dağlı under the supervision of Associate Professor Musa Gök at Balıkesir University Social Sciences Institute.

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2.2. Local Governments

Mackenzie (1961) noted that local governments are institutions that allow local public services to be effectively and appropriately delivered to citizens and provide opportunities for citizens' participation and political education (Özgür & Kösecik, 2005: 2). Citizens access to local government departments is much easier than central administration. When the values held by local governments are taken into account, it seems that people are very interested in the issues that concern local communities. The citizens feels the need to intervene in the management of the close environment in which they live. This is achieved only when the people actively participate in the decision-making process.

2.3. Governance

Today, the changes in the relations between the public and the public administration change the concept of "administration". This new concept of "management" is called "governance" in Turkish and includes the meaning of "mutual interaction" between the administrators and the citizens (Toksöz, 2008: 7). Governance by many scientists and politicians is regarded as a fundamental component of sustainable economic development. The common point of all definitions is that governance is based on the rule of law and accountability of the governments to citizens (Kaufmann & Kraay, 2008: 1-30). Governance is defined by Çetinkaya (2015: 96) as the joint administration of any institution by people and administrators.

3. Budget, Budget Right, and Participatory Budgeting

3.1. Budget and Budget Right

The budget is a document that allows the government to collect expenditures and collect revenues based on the parliamentary authority of the collection and expenditure of public resources. It is a kind of income-expense estimate in the simplest definition.

Since the Parliament, the legislative body, approves this document, it also carries a legal character. On the other hand, this can also be called an agreement between the people and political power on the use of resources.

Batirel (2004: 2-10) defines the budget right as the government's inability to collect income items without permission of the parliament, and the inability to spend the revenues that were collected. In other words, the budget right means that parliament has absolute power over public finance.

3.2. Participative Budgeting

As we mentioned earlier, participatory democracy is based on the practice that the people have a say in public administration and their participation in the political

decision-making process through different means of implementation. The budget, on the other hand, is the estimate of the state's income and expenditure, which is implemented by the government upon parliamentary consent. The financial aspect of public participation in the decision-making process constitutes participatory budgeting practice. Moreover, participatory budgeting has recently become widespread at global level and has been a subject of considerable debate in Turkey as well. Participatory budgeting is an important milestone in the use of the budgetary right that has shown various changes since Magna Carta. In the preparation of the central government budgets, the right to budget is used by the parliament in the budgeting process as a means of representing democracy. Participatory budgeting, which is particularly widespread in local governments, is currently being implemented in many countries in various forms. Local governments have recently begun implementing a participatory budgeting approach that encourages the direct participation of the people in the region in which they live and provides them with the right to speak in decisions that concern them, instead of a fully representative democracy. As a result, it is getting harder and harder to find solutions and resources for the increasing population and urbanization problems in representative democracy. At this point, participatory budgeting is proposed all over the world as a solution.

4. Conclusion

Representative democracy causes the contradiction that people are both sovereign and ruled at the same time (Ağaoğulları, 1986: 41). Participatory budgeting has an important role in eliminating this situation which leads to the principle agent problem. At the global level, participatory budget approach is increasingly widespread in allocating public resources. In Turkey too, although not very widespread, there is a significant increase in participatory budgeting practices both at the central and local levels. The general budget legislation, which has been updated in recent years, also emphasizes the necessity of establishing public administrations and institutions based on participation in budgetary processes. As a consequence of these developments, it is important for the local governments to create the services to be offered by participatory budgeting as well as to develop local democracy and to reflect the legislation into practice.

In this study, Çanakkale Municipality, which is trying to take a participatory approach in its budget processes, and Bandırma Municipality, which has not yet exhibited this effort, have been examined. In the study, the perceptions of the administrator of the municipalities towards the participatory budget were statistically positive and meaningful. In addition, cross-table analyzes of the two municipalities resulted in different end results. In addition, cross-tabular analyzes showed that municipalities exhibited opposite characteristics in some cases.

Key Words: Local Democracy, Local Governments, Governance, Budget, Budget Right

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Analysis of the Public Expenditure- Economic Growth Nexus with Asymmetric ARDL Methodology: The Turkish Case over the Period 1980-2014

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1. Introduction

This study examined the causal relationship between public expenditure and economic growth by using annual time series for the period 1980-2014 in Turkey. The survey adopted a nonlinear autoregressive distributed lags (NARDL) to evaluate nonlinear relationships between variables. The data set hold annual real GDP growth rate (representation of economic growth) and consolidated budget expenditure (proxies the public expenditure). To the best of our knowledge, the current study is the first empirical attempt to investigate the asymmetric link between public expenditures and economic growth in Turkish economy. The findings support the existence of the asymmetric relationship inherent in the public expenditures-economic growth nexus and present significant political implications.

2. Literature

The scope of the literature consists of the studies dealing with the relationship between public size-economic growth and public expenditure-economic growth nexus on national level by time series, cross-section, and panel data analyses. While studies such as Abounoori and Nademi (2010), Altunç and Aydın (2012), Christie (2012) and Turan (2014), which examine the relationship between public size and economic growth, analyze the relationship by finding the threshold value, the studies by Arısoy (2005), Loizides and Vamvoukas (2005), Başar et al. (2009) and Ağayev (2012) investigate the relationship between public spending and economic growth. The available literature shows that there is no consensus on this topic, with markedly varying findings.

3. Empirical Analysis

3.1. Data Set

In this study, which used the time series of 1980-2014 period in Turkish economy, real GDP growth rate standing for economic growth and consolidated budget spending representing for public expenditures. In addition, to increase the significance and reliability of the model,

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inflation measured by the GDP deflator and net export that is supposed to have a significant effect on the growth performance of Turkish economy were used as control variables.

3.2. Model and Methodology

The impact of public expenditures on economic growth in Turkish economy during 1980-2014 is investigated with the following functional relation:

$$Y = f(G, NX, P, T) \quad (1)$$

In the model, Y represents the real GDP growth rate; G the consolidated budget spending; NX net exports; P the GDP deflator and T the linear time trend.

The NARDL model used in the study differs from other methods (ARDL, Johansen Cointegration, Granger Cointegration, etc.) in terms of clarification whether short and long term relationships have a symmetric or asymmetric structure. According to this method, we investigate whether there is an asymmetric relation between the variables and short and long run coefficients are estimated based on the results.

3.3. Findings

Symmetry and asymmetry test results are reported Table 1.

Table 1. Results of Long and Short Term Symmetry Test

Model Form	Long Term Symmetry / Asymmetry	Short Term Symmetry / Asymmetry	Decision
Y=f(G)	5.658 (0.035)	3.536 (0.085)	Asymmetric

* Values in the parentheses are probability values.

The results presented in Table 1 indicates that there is a short and long asymmetric relationship between public spending and economic growth for the period of 1980-2014 in Turkey. Thus, a method that adds to the knowledge asymmetry for the estimation of the relationship between two variables is to be used.

In this context, Table 2 presents findings reached by the estimation of the relationship between public spending and economic growth using NARDL method.

Table 2-panel A illustrates that there is an asymmetric cointegration relationship between the public expenditures and the economic growth in the relevant period in Turkey at a significance level of 1%. Panel D shows that the asymmetric cointegration relation does not pose a risk in terms of autocorrelation, varying variance, functional structure and normality at a significance level of 1% in terms of time series properties. Panel B demonstrates that asymmetric long-run coefficients, negative shock (G^-) from public spending to economic growth will increase the real growth rate. Besides these results, Panel C presents that the negative shock to the public spending in the short term will negatively affect the real growth rate. Finally, the (G^+) coefficients of positive spending shock in both short and long terms are not statistically significant.

Table 2: NARDL Estimation Results

	Dependent Variable: Y
<u>Panel A: Cointegration</u>	
t-BDM	-5.870
F-PSS	11.597
<u>Panel B: Asymmetric Long Term Coefficients</u>	
G ⁺	0.142 [0.527]
G ⁻	0.501 [0.044]
<u>Panel C: Asymmetric Short Term Coefficients</u>	
G ⁺	0.306 [0.531]
G ⁻	-1.080 [0.051]
Fixed	-0.858 [0.104]
NX	-0.246 [0.000]
P	-0.029 [0.785]
T	-0.110 [0.005]
<u>Panel D: Diagnostics</u>	
Portmanteau Autocorrelation	21.57 [0.062]
Breusch/Pagan Heteroscedasticity	4.302 [0.038]
Ramsey RESET Test	1.676 [0.240]
Jarque-Bera Test	0.563 [0.754]

* Values in square brackets are probability values. While critical values (-3.96-4.26) for the t-BDM statistics at 1% significance level and critical values (6.10-6.73) for the F-PSS statistics were obtained (Peseran et al. 2001: 301, 304).

4. Conclusion

This paper examines the relationship between public expenditure and economic growth in Turkey for the period of 1980-2014. It is concluded that there is an asymmetric relationship between the variables in both short and long term. The findings show that a negative shock to public spending reduces real growth in the short run and increases real growth in the long run. Consequently, public spending has the opposite effect on real growth performance in the long run, while it can be used as an effective means of economic policy to reduce or eliminate the effect of a possible recession in the short run. In other words, there is a dynamic (time) inconsistency problem in terms of public spending-economic growth relation in Turkey. Therefore, it seems highly crucial for the future of Turkish economy that we adhere more to the market dynamics in line with our long-term real growth target, pay more attention to cost-benefit analysis in distributing public resources and avoid irrational use of public expenditure in favour of short-term targets.

Key words: Public Expenditures, Economic Growth, Asymmetric ARDL

JEL Code: E62, H50, O47

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The Effect of Military Expenditures on Economic Growth: The Case of Middle East Countries and Turkey

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1. Introduction

In terms of developed countries, there are many economists who argue that defense spending affects economic growth negatively. However, Benoit's study in 1978, found that this view was not valid for the Emerging Countries. Particularly in terms of political relations and geopolitical positions, beyond the segregation between developed and developing countries, Middle East countries and Turkey attract attention. Therefore, with its geopolitical position it is very important to make evaluations on the Middle East countries where Turkey is included among them. The aim of the study is to investigate the effect of defense expenditures of four Middle East countries (Iran, Saudi Arabia, Israel and Oman) and Turkey on economic growth between 1990 and 2015. In this direction, unit root tests were applied using the panel data of the countries. In this direction, unit root tests were first applied using the panel data of the countries. Then, Pedroni panel cointegration test was conducted to determine whether there was a long-term relationship between them. Finally, the coefficients of long term cointegration relation between variables was estimated by the Panel Dynamic Ordinary Least Square (DOLS) method.

2. Literature Research

Benoit (1978) evaluated 44 Developing Countries, including Turkey, between 1950-1965. Accordingly, contrary to expectations, a positive relationship was found between defense spending and economic growth. As the study gives a different viewpoint to the subject; many different empirical studies have been carried out in the literature in order to determine the interrelationship.

Frederiksen and Looney (1982) studied the relationship between defense spending and economic growth for 90 developing countries for the period of 1970-1978. In the sample, the countries are classified according to their resource constraints. Two hypotheses have been proposed that in poor countries with resource constraints, when defense spending has negative affect on economic growth, however defense spending has positive affect on economic growth in rich countries with no resource constraints. According to the analysis which was made with Least Squares (LSM) method findings supporting hypotheses were obtained. For wealthy countries without resource constraints, defense spending has a statistically significant and positive impact on economic growth, for relatively poor countries, although the coefficient is negative, it is not statistically significant. It was stated that the

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absence of a meaningful relationship for the poor countries may be related to the period covered.

Dakurah et al. (2001) investigated in their empirical study, the causality relationship between defense spending and economic growth for 62 developing countries during the period of 1975-1995. As a result of Granger causality analysis one-way causality relationship was found from military spending to economic growth for 13 countries. On the other hand for 10 countries one-way causality relationship was found from economic growth to military spending.

Yıldırım et al. (2005) empirically investigated the impact of military spending on the economic growth of Middle Eastern countries and Turkey for the period of 1989-1999. The relationship between defense spending and economic growth was estimated using the Generalized Moments Method (GMM) for the fixed effects model and the dynamic panel. According to the analysis, defense spending in the Middle East countries and Turkey positively affects economic growth.

3. Data Set and Method

The aim of the study is to determine the impact of defense spending on economic growth in four Middle Eastern countries (Iran, Israel, Saudi Arabia and Oman) and Turkey. To this end, panel data for the period 1990-2015 is used. In the sample, the first four Middle East countries that spend the most defense spending in 2015 and Turkey is located in the top five when included in this ranking has been addressed. In the econometric model created by the way from the studies in the literature, the Gross Domestic Product (GDP) of the countries as a dependent variable while defense expenditures data is used as an independent variable. The series by taking logarithms is used in the model. The GDP data are provided by World Bank-World Development Indicators, while defense spending data was obtained from the SIPRI database.

The econometric model created by way of the studies in the literature is as follows:

$$\ln gdp_{it} = \beta_0 + \beta_1 \ln me_{it} + \varepsilon_{it} \quad (1)$$

In the equation, the terms are dealt with in the following way; β_0 as a constant; $\ln gdp$ as the logarithm of GDP, $\ln me$ as the logarithm of Defense Spending β_1 as a 1% increase in defense spending affecting the percentage effect on economic growth and ε as the error term.

In the panel data analysis, it is necessary to determine whether or not the process forming the layer is stable over time, that is whether the series are stationary. When analyzed by non-stationary series misleading results called fake regression can be emerged. Therefore, unit root tests have been developed in order to determine the stability (Yerdelen Tatoğlu, 2013: 199). In the study, Levin, Lin & Chu (2002) ve Im-Pesaran & Shin (2003) which are the first generation unit root tests were primarily performed. As a result of the first generation unit root tests conducted to determine the stability, it was observed that the series were stable, that is there are proved to be $I(1)$. The Pedroni (1999) panel cointegration test was applied to test whether there is a cointegration relationship between the series. Pedroni proposed a total of seven panel cointegration tests, consisting of four panels and three groups of test statistics (Pedroni, 2004: 603). According to the results of the Pedroni panel cointegration test, panel ADF and group ADF test statistics are statistically significant at 5% level. In other words, there is a cointegration relation between the series. The DOLS method was used to estimate the coefficients after the cointegration relation in the model was accepted.

4. Conclusion and Evaluation

Some of the studies that examine the relationship between defense spending and economic growth argue that it is a positive relationship, some implies that there is a negative relationship. Nevertheless, there are also studies indicating that there is no relationship between them. According to the results of the DOLS test, the flexibility of defense spending across the panel was statistically significant and positive at 1% level. A 1% increase in defense spending increases economic growth by 0.35%. According to the country-based findings, a statistically significant and positive relationship was found for Iran, Israel and Saudi Arabia. However, no statistically significant relationship was found between Turkey and Oman. When these two countries are compared to other countries, resource constraints may have led to these results. As a result, defense spending across the panel positively affects economic growth in the long run. It explains the finding that some of these countries are oil rich countries and some of them are vulnerable to such factors as geopolitical position, political relations.

Key Words: Military Expenditures, Economic Growth, Panel Cointegration, Middle East Countries.

JEL Codes: H56, O47, C33, O53.

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The Relationship Between Tax Structure and Economic Growth in Turkey

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1. Introduction

Taxes constitute individually a large portion of public revenues which is one of the tools of fiscal policy. As is known, the growth rate affects tax revenue in an economy, while choices of tax policy also affect economic growth. Consequently, there is a strong relationship between tax structure and economic growth. Therefore, it is important to test empirically the causality relationship between components of tax structure and economic growth.

The main purpose of this study is to analyze for the causality relationship between economic growth and tax structure using time series analysis for the period 1980-2015 in Turkey. In this context, its tested relationship between total tax revenues, direct taxes, indirect taxes, income taxes, corporation taxes, value added taxes and economic growth using Granger (1969), Toda-Yamamoto (1995) and Breitung and Candelon (2006) Frequency Domain causality tests.

2. Tax Structure and Its Economic Effects

Tax structure is a concept that reveals the relation between share of the tax types constituting the tax system in the variables such as total tax revenues and national income and the special characteristics of the economy, and thus allows us understand the economic, social and political effects of the tax types.

Hicks (1946) argued that taxes must be properly categorized to understand the structure of a tax system. According to Hicks (1946: 38), divides taxes into two as directly and indirectly, it is natural that the composition of tax structures changes from age to age, and therefore the use of these concepts must be changed. A tax type that is considered to be a direct tax in a certain period can be considered as indirect tax in the circumstances of another period. For this reason, it is essential to clarify the indirect and direct taxation within the tax structure of the current era and examine their economic effects. There are many different definitions in the literature and in common use. According to Atkinson (1977), three different criteria can be mentioned. The first one is the method of administration. The second criterion concerns the final incidence of the tax. The third criterion is that whether the tax is adjusted to the individual characteristics of the taxpayer or not.

There may be some theoretical expectations about the economic impact of taxes. For example an increase in direct taxation can slow down economic growth as it reduces people's disposable income. And even the increase in direct taxes can reduce indirect tax revenues because of the potential consumption reducing effect. An increase in indirect taxes is expected to contribute positively to economic growth through investment by reducing consumption and

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increasing savings. Of course, there is no guarantee that savings will always transform to investment. For this reason, theoretical expectations should be empirically tested.

3. Empirical Literature

When we look at foreign studies on the existence or level of the relationship between taxation and economic growth, we see that there is a large literature. King and Rebelo (1990), Widmalm (2001) and Poulson and Kaplan (2008) have found an inverse correlation between taxation and economic growth in their analysis for various periods. From the perspective of causality analysis, Anastassiou and Dritsaki (2005) and Mishra (2011) have found a one-way causality relationship from taxation to economic growth; Taha, Nanthakumar and Colombage (2011) have identified a one-way causality relationship from economic growth to taxation.

Studies for Turkey's economy offer a variety of results. While Durkaya and Ceylan (2006) found a one-way relationship from economic growth to taxation and found a two-way causality relationship between direct taxation and growth; Mucuk and Alptekin (2008) found a one-way causality relationship from direct taxation to growth. Temiz (2008) and Erdoğan, Topcu and Bahar (2013) found a two-way causality relationship between both total tax revenues and direct tax revenues and growth. Ünlükaplan and Arisoy (2011) found a one-way causality relationship from tax mix and tax burden to economic growth. Paksoy and Bakan (2010) did not find a significant relationship between growth and taxes; Göçer, Mercan, Bulut and Dam (2010) found a positive relationship between indirect and direct taxes and growth.

4. Econometric Analysis of the Relationship between Tax Revenues and Economic Growth in Turkey

In this study, we focused on the relationship between the tax types that composes the tax structure and economic growth for Turkey's 1980-2015 periods. In this context, Johansen (1991) cointegration test, Granger (1969) causality test, Toda-Yamamoto (2001) causality test and the frequency-domain causality test developed by Breitung and Candelon (2006) were used. The results indicate the existence of a long run relationship between total tax revenues, indirect taxes, direct taxes, income taxes and economic growth. All causality results are shown in Table 1.

Table 1. Results of Causality Tests

	Granger Causality	Toda-Yamamoto Causality	Breitung-Candelon Frequency Domain Causality		
			Short Term	Middle Term	Long Term
$\ln GSYH \Rightarrow \ln TVG$	\nRightarrow	\nRightarrow	\nRightarrow	\Rightarrow	\Rightarrow
$\ln TVG \Rightarrow \ln GSYH$	\nRightarrow	\nRightarrow	\nRightarrow	\Rightarrow	\Rightarrow
$\ln GSYH \Rightarrow \ln DLVG$	\nRightarrow	\nRightarrow	\nRightarrow	\nRightarrow	\nRightarrow
$\ln DLVG \Rightarrow \ln GSYH$	\nRightarrow	\nRightarrow	\nRightarrow	\nRightarrow	\nRightarrow
$\ln GSYH \Rightarrow \ln DLSVG$	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow
$\ln DLSVG \Rightarrow \ln GSYH$	\Rightarrow	\nRightarrow	\Rightarrow	\Rightarrow	\Rightarrow
$\ln GSYH \Rightarrow \ln GVG$	\Rightarrow	\Rightarrow	\nRightarrow	\Rightarrow	\Rightarrow
$\ln GVG \Rightarrow \ln GSYH$	\nRightarrow	\nRightarrow	\Rightarrow	\nRightarrow	\Rightarrow
$\ln GSYH \Rightarrow \ln KDVG$	\nRightarrow	\nRightarrow	-	-	-
$\ln KDVG \Rightarrow \ln GSYH$	\nRightarrow	\nRightarrow	-	-	-
$\ln GSYH \Rightarrow \ln KVG$	\nRightarrow	\nRightarrow	-	-	-
$\ln KVG \Rightarrow \ln GSYH$	\nRightarrow	\nRightarrow	-	-	-

Note: Where $\ln GSYH$ is Gross Domestic Product; $\ln TVG$ is total tax revenue; $\ln DLVG$ is indirect tax revenue; $\ln DLSVG$ is direct tax revenue; $\ln GVG$ is income tax revenue; $\ln KDVG$ is value-added tax revenue; $\ln KVG$ is corporation tax revenue. “ \nRightarrow ” notation means that there is no causality. “ \Rightarrow ” notation means that there is causality. “-” notation means that there is no cointegration between the variables and therefore no causality test is performed.

5. Conclusion

The impact of both direct-indirect tax distinction and specific tax types on economic growth can change from country to country and even over time in the same country. For this reason, we aimed to examine the relationship between total taxes, indirect taxes, direct taxes, income taxes, corporate tax, value added tax and economic growth for the 1980-2015 periods in Turkey.

In our study, it was determined that total tax revenues, indirect taxes, direct taxes and income tax have a long-term relationship with economic growth. Using the Granger causality test, the Toda-Yamamoto causality test and the frequency-domain causality test developed by Breitung and Candelon, the conclusions have been reached that only total tax revenues, direct taxes and individual income tax have a causality relation with economic growth.

Key Words: Tax Structure, Indirect Tax, Direct Tax, Economic Growth.

JEL Codes: C22, H20.

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New Approaches to the Analysis of Economic and Financial Events

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1. Introduction

Humans, who are not mechanical beings, exhibit different behaviors under different conditions they face. These behaviors also differ from human to human. Conventional economic models disregard these differences while considering humans, who are each an economic agent, and assume that all agents will make similar decisions under the same conditions. Social status, economic conditions, environmental factors, past experiences and even emotional factors are influential in the differentiation of the behaviors of economic agents. To reach conclusions by analyzing the behaviors of economic agents in the most correct way, these various factors need to be included in models. The failure of linear modeling methods to include the said variables in analyses has resulted in the need for different methods in the explanation of economic-financial approaches. In this context, the present study uses the relevant literature to set out through what approaches outside conventional methods it is possible to address the behaviors of economic agents in response to financial and economic events. In line with the relevant aim, the approaches of behavioral economics, experimental economics, neuro-economics, and heterogeneous agent are examined.

2. Behavioral and Experimental Economics

Public economics includes positive and normative goals. Both goals are aimed at setting out and evaluating the effects of public policies. To achieve these aims, it is necessary to create models concerning the decision-making behaviors of humans. Preference and welfare indicate the components of the model to be created. Using the preference component, we can predict the effects of policy reforms both on individual behaviors and on prices and income distribution. Using the welfare component, we can determine whether the change that has taken place is harmful or useful to consumers (Bernheim and Rangel, 2005: 2).

Standard welfare analysis dwells on observed preferences. This means trying to understand what people want on the basis of their choices (Bernheim and Rangel, 2005: 2). Where behavioral economics makes a difference is that not only observed preferences but also variables influential in these preferences such as personal

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characteristics, environmental factors, perceptions, past experiences, and political preferences, are included in models.

The approach of experimental economics is one of the approaches used in order to be able to observe the results created by individual or group decisions under certain conditions using some incentives with aims such as testing the validity of a theory, setting out a new theory or making policy proposals. Market experiments, game theory experiments, and individual decision-making experiments constitute the research areas of experimental economics (Cordeiro, 2010: 47).

The approach of experimental economics questions the assumption that individuals behave in ways consistent with conventional economic theories. The reasons for such questioning are the complexity of the decision-making process in the real world and the fact that the cognitive capacity of the human mind is limited.

3. Neuro-Economics

In the 1940s, the concepts of ordinal utility and revealed preference veiled the consideration of non-measurable feelings. The theory of revealed preference considers observed preferences and unobserved preferences to be equivalent. In this approach, it is assumed that humans exhibit consistent behaviors. For example, once they have revealed that they prefer option A to option B, they must not prefer B to A (Camerer, Loewenstein, & Prelec, 2005: 10).

In reality, however, humans do not always exhibit consistent behaviors. The inconsistency of behaviors can be evaluated through the analysis of the effect of brain activities and of feelings. In other words, feelings and ideas are instruments that can be used to explain behaviors. Neuroscience, which makes it possible to know details concerning the functioning of the brain, has broken conventional economic assumptions and shown that feelings and ideas can be directly measured.

4. Heterogeneous Agent Model

The common point of behavioral experimental economics and neuro-economics, which have brought new points of view to the economic and financial literature and raised the need to review existing assumptions, is that both approaches are consistent with the assumptions of the heterogeneous agent model, which argues that economic and financial decisions involving tax evasion, investment, borrowing, saving, spending, or income distribution will differ from person to person, from group to group, from family to family, based on the fact that not all individuals are identical with each other. Since a large number of variables are influential in the making of such decisions, several factors that explain behavior need to be included in models that will be constructed.

Including real life factors in analyses would be quite complicated. However, the development of multi agent-based simulation (MABS) software has enabled the

creation of calculation instruments that will facilitate this type of complications (Bloomquist, 2006: 411).

5. Conclusion

The increasing complexity of economic relations makes it difficult to understand these relations. The fact that the explanatory power of existing economic models fails to answer the need has led economists to search for new models. Different approaches have been proposed to explain the behaviors of economic agents or to be able to understand under what influencing factors they make their decisions. The findings from the relevant literature in the present study indicate that as many emotional, perceptual-cognitive, characteristic, environmental and similar variables concerning human behaviors as possible and the difference of these variables between economic agents need to be integrated into the model that will be constructed in the analysis of economic and financial events.

Key Words: Heterogeneous Agent, Behavioral Economics, New Approaches to Economics

JEL Codes: H30, H39

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Sugar Allocation Practices During World War II: Sugar Ration Card

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1. Introduction

In the market economy systems, economic stability is established on supply and demand, which depend on the pricing mechanism and the decision to manufacture any good for any quantity and the distribution and allocation is made by private entrepreneurs who are active in the market for their own personal profit incentives. This mechanism works during ordinary conditions but it might be disturbed during extraordinary times such as war, famine and crisis, especially since the demand for some critically-important basic necessities cannot be met by existing supply; and long-time scarcity might endanger public health. In such cases, state can intervene in the market mechanism through price and quantity controls in order to protect consumers for social reasons (Gökbnar & Kahrıman, 2014:6-7).

Distribution (allocation) of goods by state after disabling market mechanism is called equalization. Equalization is a type of rationing because any method to limit consumption of goods is called a rationing system (Stiglitz, 1994:15). A well-established ration card system is required for any industry that is considered for rationing (Gettel, 1943:260).

Although Turkey did not participate World War II, it suffered problems from economic, financial and political perspectives. As a solution for the scarcity of basic food products during the war time, Turkey had to start allocation practice for some products. This study looks into the sugar allocation practice during the World War II and analyzes sugar ration card method from various angles.

2. Ration Card Practice As An Intervention Tool³

Equalization as a rationing system means deactivating market mechanism to manage allocation problem through administrative decision-making processes. Rationing is the artificial control over allocation of scarce resources, food staples, industrial goods, etc. In banking, it means the limit of credit amount that banks can give to their clients and in economy it means artificial control of supply and demand of commodities. Control over price and supply and demand ensures accessibility of goods and services for all segments of the society (The Economic Times, 2017).

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2.1. Justification of Ration Card Practice

A well-established ration card system is needed for an industry that is considered for rationing as a result of scarcity problem during war times (Gettel, 1943:260). Because use of ration card is a practice that comprises social aspects as well as economic aspects (Anderson, 1943:23). When we consider from this point of view, there are two aspects needed for achieving the desired level of success from the system: First of them is the points to take into consideration while making decision to implement ration card and the second one is the method of implementation for the ration card practice. The first aspect tries to answer these questions: i) Is ration card practice necessary or not? ii) For which commodities ration card practice will be implemented? iii) When will the ration card practice start? iv) How will ration card practice be implemented? (Gettel, 1943:260-265). In terms of the second aspect, when we look at various country examples, we see that there are many methods used.

2.2. Conditions for Ration Card Practice

The system needs to have some principles to function well: it needs to have some characteristics such as being implemented for the most-needed goods, not overlapping with other war-time controls, not having an impact on functioning market mechanisms for other commodities, giving satisfying explanations to questions of the public, and being flexible enough to adapt to changing situations (Gettel, 1943: 265).

3. Sugar Allocation Practice

Problem of food provision and its solution was among the most important troubles of Turkish government during the World War II. The level of grain production had decreased due to reasons such as the increased number of soldiers, which rose to approximately 1.5 million, increased consumption of grains by the army, drafting of many farmers in the army and the fact that the state commandeered some of the animals used for farming purposes (Duru, 2008:160).

National Protection Law (NPL), prepared by Refik Saydam government and approved by the Parliament on January 18, 1940 after the start of the World War II, is considered a symbol of Saydam Government's economic policy. With this law, which gave the Cabinet ultimate power to intervene the economy, statism policy started to be implemented in a more strict and broader sense in state government in 1930s (Kocabaş, 2009:217). National Protection Law (NPL) was criticized by many writers and academicians both during the duration of its implementation and aftermath. However it should be evaluated within the scope of war economy. It had many articles for meeting the provision needs of the country.

Ration card system, which was set up to meet commodity needs, aimed at meeting three basic demands: First issue was to ensure sufficient and fair distribution of food supplies. Second expectation was to ensure price stability that had been disturbed because of wartime inflation; and third was to support fixed-income citizens who were the most-affected group within the society (Gökbunar & Kahrman, 2014:84-92).

Sugar, like many staple foods, was on the black market and it was allocated through ration cards due to lack of presence on the market. One sack of sugar went up to 210 Turkish liras on the black market from its ordinary price of 114 Turkish liras. As a result, allocation of sugar through ration cards started in Istanbul after a communique by the Istanbul Governorship on October 19, 1942; and then the Ministry of Trade issued a nationwide communique dated

January 11, 1943 that ordered the governorships to identify the fixed-income citizens and distribute sugar. Ration card system for sugar allocation continued until December 11, 1945.

4. Conclusion

Provision of food products has been one of the most important problems of the whole human history, and not only during war times but also during the peace times. Turkey used ration cards during both World War I and II. However, various problems and defects of its practice were continuously debated during the practices and their aftermath. Research and analyses of the topic show that despite all precautions and efforts, expected results were not reached for the practices due to issues such as the insufficient number of officials involved in this practice compared to the other countries, negative behaviour of some officials towards public and their corruptions, and insufficient statistical information.

Key Words: Ration Card Practice, War Economy, Provision Problem, Sugar Ration Card

JEL Code: H10, H12, H30

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Approaching the History of Finance with a Different Source: Zafernâme (The Book of Victory) by Ziya Pasha

Selçuk İPEK¹

Semra TAŞ²

1. Introduction

Apart from official sources, we may consult to different sources that do not deny official history or that are not in conflict with the true understanding of history while conducting a research on the history of finance. Works of folk literature are very important in that sense. This study is about Zafernâme (The Book of Victory) by Ziya Pasha, a work that can be considered as a source while exploring the history of finance.

The primary objective of this study is to approach the financial issues of the Ottoman Empire during the post-Tanzimat period from the perspective of Zafernâme; a work by the well-known satirist Ziya Pasha. Another objective of this study is to reveal that this type of literary works which cannot be found in sources about the history of finance (such as books, articles, essays etc.) can actually provide information on the history of finance and offer a brand new perspective on the matter.

This study will initially deal with the issues regarding the financial structure of the Ottoman Empire during the post-Tanzimat era based on information that can be found in sources which deal with the history of finance in general. Second of all, the study will give brief information about Zafernâme and explore how financial issues are dealt in this work during the post-Tanzimat reform period.

2. Financial Problems During the Tanzimat Era

The primary reason of financial issues during the Ottoman Empire can trace back to late 16th century; however, taxation, disbursement, borrowing policies as well as corruption and bribery are other reasons that have brought about financial problems after the Tanzimat era which can be considered as a period of innovation and reformation (Çakır, 2001: 155).

Problems related to taxation policies, issues caused by the way how Tanzimat reformations were applied, failure to equally distribute tax burden, problems regarding tax collection, additional payments made that are not related to the tax sum,

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management of tax farming; bribery and corruption made during tax farming by local officials, taxman and collectors who work in rural areas constitute these issues.

The fact that revenues of the Tanzimat era were used for luxurious expenditures as well as for the payments of domestic and foreign borrowings instead of making efficient expenditure have given its way to expense-related problems. A statement made by an author regarding this era is very interesting: "The revenues of the state consists of three parts: some are being stolen, some are spent unnecessarily and some are also spent if collected" (Çakır, 2001:212).

Problems regarding public debts had started in 1854 with the financial crisis caused by the Russo-Ottoman War; besides, due to faulty borrowing policies which ended up with the establishment of the Ottoman Public Debt Administration, even the interests of tax obligations could not be paid.

3. On Zafernâme (The Book of Victory)

Fundamentally, Zafernâmes aim to release the achievements and successes of persons and subject matters dealt with to the public. Although "The Book of Victory" by Ziya Pasha may seem to have similar concerns, it is actually a social satire that contains a lot of ironical elements. The work consists of three parts namely; qasida (eulogy), tahmis (a kind of quintet) and sharh (commentary tradition).

Zafernâme is basically a satire-poem written by Ziya Pasha against Ali Pasha, the Grand Vizier who was Ziya Bey's enemy due to political conflicts regarding positions and status (Apaydın, 2001: 61). Ali Pasha was an important statesman until 1871 during the Tanzimat period. Although the target was Ali Pasha in The Book of Victory, it does not also fail to criticize the administrative, political and financial issues regarding the period (Turan, 2007: 3180).

4. Financial Issues Mentioned in Zafernâme

The unequal distribution of tax burden, that peasants were being subjugated to more tax burdens, corruptions in tax collections that made those who earn more pay less and vice versa and especially the fact that debt collectors were being paid other sums outside tax in the collection of tithes were mentioned in the Zafernâme text. It is also noted that some statesmen were placed a ban regarding tax farming as bribery and corruptions took place in this tax system.

Regarding the expenditures made by the state, on the other hand, it is noted that the collected taxes were not used for the benefit and welfare of the people but for the luxury needs of the palace, for debt payments and for the benefit of the Ottoman council of ministers instead.

In Zafernâme, the general status of foreign borrowings is summarized regarding the incurred debts. Moreover, it is noted that foreign and domestic borrowings discredit the government and that its inability to pay for the debts and borrowings made for fiscal deficits increase the interest burdens. It is as if the portrayal of the situation in

Zafernâme prophesizes the fiscal bankruptcy of the Ottoman Empire in advance (Apaydın, 2002: 237).

5. Conclusion

In addition to the information based on official and governmental perspectives, sources and texts with different approaches and points of view should also be taken into account while making a historical research (especially on the history of finance). This approach may bring about new or different information and data while it can also help the formation of different points of view. In this respect, Zafernâme by Ziya Pasha is a significant literary work.

Even though Zafernâme is fundamentally a satirical work written against Ali Pasha, it indirectly provides information on the financial status and circumstances of the era. At first glance, it might be thought that Zafernâme is created out of hostility against Ali Pasha and that the information in the text may not be accurate. However, criticisms made in Zafernâme are also voiced by historians who are experts in this topic; for this reason, this source can be regarded as a reliable one.

In short, Zafernâme criticizes the financial problems of the Tanzimat period in terms of taxation, disbursement and borrowing activities. Although a little exaggerated, the information and criticisms found in this literary work overlaps with classical sources on the history of finance.

Key Words: Maliye Tarihi, Tanzimat Dönemi, Mali Sorun, Zafername.

JEL Codes: N00.

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An Analysis upon the Taxation Related Concepts in the Turkish Folk Songs

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1. Introduction

“Türkü”, the name for the Turkish folk songs in the form of composed syllabic verses, mostly about mood of people, reflecting happiness, world view, beliefs, and other events encountered, is culturally transferred from one generation to another, as oral narratives mostly of anonymous characteristic. Against such vast background Ottomans developed an original taxation system based on sharia. Although the system had long been implemented, the Ottoman administration formally put it in a formal legal framework that came into implementation with the law of “Reaya and Tımar”, Agriculture, being a way of life and the very subject of taxation, changes in the methodology of tax collection, negative impact of wars and methodologies all exacerbated the burden of taxation over people. In such regard, the objective of the study is to elucidate the tax known as Aşar (Tithe) and its implementation in the Ottoman times and early republic and the repercussions of the Tithe’s implementation into the Turkish folkloric culture.

2. Definition

The term “Folklore” is defined to be an independent research discipline within the social and human sciences based on the need of humans to trace their identities and the desire to learn their pasts and becomes the foundations of culture policies. (Yıldırım, 1991: 15). Türküs, being one essential component of Turkish folklore, are defined as anonymous works which are written in forms of syllable verse single or four verse sets known as bents and connected thorough with different themes performed poetically and rhythmically with their themes on tastes, weltanschauungs, beliefs and other social events encountered. Most folk poems performed with a rhythm are known as türküs (Yakar, 2011: 218), while they have individual, social and economic and education functions.

3. Classification of Türküs

The main subject of türküs is the humans. As humans cannot be abstracted from their social contexts, türküs have been missioned to deal with the social and political upheavals such as the pains suffered in times of invasion and other similar events. Türküs are not only made of

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certain text and rhythms' and they are indeed cultural dynamics that are important and effective (Çevik, 2013: 2).

The wars fought by the Ottomans thereby leading to more and taxation to finance the battles, pressures and poverty pave the way to insurrections. Tithe also happens to be an important theme in these oral narratives.

4. The Tax Âşar and Socioeconomic Repercussions

One of the basic revenues of the ottoman public financial system, the tax Tithe is a tax levied over the production on the basis of a certain percent. At first instances the tax was perceived as a religious responsibility yet at lateral stages, the tax happened to be a legal responsibility and the payment of tax through different methods. The "Tithe" Tax collected from every kind of agricultural production in the name of the State on various historical, social and fiscal grounds was implemented differently with different rations depending the land productivity, irrigation means, local traditions.

As the system was left to the multitude of different people to tax collection those lower sections of the society could not be protected. It such to an extent the tax collectors came to felt as a distinct social class in the urban settings. In the process, which there emerged a new need for the new elites to share tax revenues (Karaman, Pamuk, 2009: 27), by the substitution of tımar sipahi by the mültezims, peasantry lost their trust on the system, the tax burden got unbearable.

The Tithe tax showed the characteristic of a distribution tax by the virtue of their being collected of mültezim. These tax collectors collecting taxes with the motive of profit maximization pressured the tax payers to pay more with policing means and tax payment ended up in being a robbery (Akalın, 1975: 99). The rates of Tithe skyrocketed to 15 percent in those worst times of Ottomans' financial crises (Pamuk, 2005:100). These extra taxation measures were put in treasure with the aim of utilizing the revenue for the earmarked purposes. In particular, the Seyhlulislam and Ministry of Justice opposed to these taxes claiming that they would be means of torture over the people (Quataert, 2008: 50-53). In the specified periods, the economic share from the national income recessed back to below of 50 percent while the tax burden increased up to 87 percent.

5. Tax in the Turkish Folklore

When analyzed from the point view of subjects, türküs were used as means to resistance to different enforcements and injustice nesses. Türküs described the events mentioned above a plain language of defiance, being aware of the risk that they would be spread to far geographies and they continued to be performed with courage. Our works handles the terms related to taxation not only in türküs but also other written forms of Turkish folklore including the poems and epochs of the eras.

5.1. Tax in the Türküs

Öztelli sets the exemplary work of "Türkü of Sepetçioğlu" for the tax related concepts in the folkloric culture notwithstanding the fact that there stands no single and explicit word related to the taxation used in the work. The türkü is a remembrance for the master of boxes who

revolted against the methods and persecution of tax collection (Öztelli, 1983: 545, 727). In another Türkü of Kırşehir, the story is still in remembrance today. When tax collector officer noted the animals, a person by the name of Ger Ali hid his little and fickle his sheep yet he was given in by other villagers. Ger Ali with the fear of losing his sheep both express his discontent with his separation reaction against the cruel methods of tax collection (Altınok, 2003: 227).

While türküs do not only handle the narration and remembrance injusticenesses and cruelties, some examples and story-lines pay the people tributes to the people who have been take to be sole subjects and have justly managed the tax collection process. The Türkü "Türk-i Osmanoğlu" was written for Nasuh Paşa tax collector or regions including the Sanjaks of Aydın, Saruhan with the title of Beylerbeyi of Karaman (yet to be promoted in years to come due to his good performance) due to dissolution of economic and social system in place like Aydın, İzmir, Menteşe and Saruhan between 1691 and 1698.

5.2. Tax in the Epochs

In not only the türküs of folk culture but also epochs of Turkish culture one can see that tax collection has been an issue of great importance. Scarcity, as a natural disaster has been a great problem for the subjects of the Ottoman Empire in rural settings whose basic economic earnings have arisen from agriculture and husbandry as tax-payers to the system. The scarcity that affected Kırşehir and Central Anatolian region became an issue in a letter sent to the newspaper "Basiret" dated May 15th, 1874 and the letter narrated stories how people had to feed themselves on dead animals, barks and couch grass.

5.3. Tax in the Folk Poems

Whilst In an epoch written by Âşık Serdari of Şarkışlalı (İpek, 2010: 127) titled "What Shall I Say" the narrative is again of persecution related techniques of tax collectors; Âşık Talibi problematizes how the cost of transformation to a settled life could be devastating. (İpek, 2010: 122).

6. Concluding Remarks

The tax pressure defined as the negative perception of tax payers due to payment is the feeling of repression on the basis of his/her evaluation. Since the pressure is an individual thing, it is called the "subjective tax burden". Since it is psychologically driven it not a measurable thing. Statements and complaints due to subjective tax burden appear in the work of folk culture This work elucidated the tax related concepts such as Öşür, tithe, zeamet, tımar and mültezim in the most essential components of Turkish folklore including türküs, epochs, folk poems and dealt with how they were perceived as subjective tax burden. Such examples may also be encountered in the American and British folksongs in regard how tax related concepts come to affect the perception of people. These examples depict the administrative structure and failures of governments in an objective way and witness the past practices.

Key Words: The Tax "Tithe", Mültezim (Tax Collector), Subjective Tax Perception and Understanding, Türküs.

JEL Code: H00, H21, A14

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Tax Neutrality on International Capital Investments

Gizem Kapucu¹

1. Introduction

The general definition of tax neutrality is that the effect of the tax system on the taxpayer's decision is hold on minimum level and implemented in the same way for each taxpayer. This principle becomes even more important when global after-tax profits (Furman, 2008: 9) differ in terms of international capital inflows that have become globalized and sensitive to tax. The reason is that the taxpayer considers where invest in and what kind of invest.

This article aims to examine the effect of tax systems on capital investments in the light of taxpayer's choice freedom and in the framework of non-discrimination. There are two aspects of this: capital export neutrality and capital import neutrality. It will be discussed the adaptations and deviations of the principle in relation to legislative regulations. The status quo and trends also will be examined in terms of OECD, EU and Turkey.

2. TAX NEUTRALITY OF CAPITAL MOVEMENTS

There are 4 situations that lead to discrimination among international investments and affect the taxpayer decision. (i) Inbound restrictions; (ii) inbound preferences (iii) outbound preferences (iv) outbound restrictions (Warren, 2001: 150). Two principles have been developed against this : capital export neutrality and capital import neutrality.

2.1. Capital Export Neutrality (CEN)

CEN provides same taxation of a resident who wherever invest in. So it grounds on residence taxation (Griffith et oth., 2010: 926) . Thus, regardless of the tax system, capital income tends to promote more efficient (Weisbach, 2015: 637). Consequently it results in no distinction between foreign investment and domestic investment.

2.2. Capital Import Neutrality (CIN)

CIN is a principle which advocates that all investments should be taxed similarly irrespective the investor's residence. It is based on resource taxation and opposes the discrimination between the foreign and domestic investor. It aims to efficiency of investment savings (Weisbach, 2015: 637) and competitiveness (Vail, 2011: 180).

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3. Legislative Regulations on Tax Neutrality of Investment

Unless each country has the same tax system, CEN and CIN can't be achieved simultaneously. Therefore they have to be closer either of them in the tax treaties and basic regulations of international.

3.1. OECD Approach

According to the OECD Model Tax Convention on Income and on Capital-2014 art. 24/3 the taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This prohibition is appropriate to CIN. However, this is incomplete because not supported by a provision prohibiting the tax incentives of foreign investors. The OECD doesn't have any regulation on CEN. It's also understood by no regulations on residence-based taxation.

3.2. EU Approach

According to EU Treaty Establishing the European Community-Consolidated version 2002 art. 56 all restrictions on the capital movement between Member States and third countries shall be prohibited. This provision provides CIN through avoid restrictions on capital movement and non-discrimination between foreign and domestic capital (Vail, 2011: 227). It also contributes CEN through avoid restrictions on outbound and provides most efficiency on allocation. Although this provision is intended to prevent discrimination-related to restrictions, does not prohibit incentive provisions. There is no obstacle to create the discrimination between domestic capital and foreign capital by the incentive provisions. Consequently EU system not exactly provide CEN or CIN.

3.3. Status-Quo of Tukey

Turkish Income Tax and Corporate Income Tax Law adopt the residence-based taxation. As a rule, it is be taxed regardless of where the local investor gained income. So Turkish tax system seems to be in line with the rules of EU, removing restrictions. However, since there is no general prohibition on incentive arrangements, it may lead to deviations from equality and neutrality through incentives.

As a matter of fact, the Law No. 4875 art. 1 clearly states that the incentive of foreign investment is a purpose. The Communiqué No. 2011/1 also supports the overseas investment of the domestic investor. Both of these situations do not correspond to the CIN, as it causes separation between domestic investment and foreign investment.

Table 1. Deviations of the Principle

Nature of deviation	OECD	EU	TR	CEN	CIN
inbound restrictions	X	X	X		X
inbound preferences					X
outbound restrictions		X	X	X	X
outbound preferences				X	

Mason, 2010: 134. (TR section has been added by the author of this article.)

4. Conclusion

The tax neutrality requires that the tax system ensure non-discrimination among taxpayers and to be neutral in the decision-making process. Regarding the current regime, the provision of support to the local investor in comparison with foreign investor is prohibited, while the other discrimination types are not prohibited despite their unpleasantness in OECD implementation. Regarding the EU and Turkey, there is no provision prohibiting incentive provisions, although the restrictions are forbidden. This leads to tax competition between countries by the incentive provisions and discriminatory tax system. These regulations show that tax neutrality of international capital is a tool rather than a purpose. Countries establish the most advantageous tax system according to economic conjuncture. In this way, they deviate from the principle of neutrality by take tax as a factor on international economic relations. These legacies must have a legitimate purpose and be consistent in order to be legally admissible.

Key Words: Tax Neutrality, Capital Export Neutrality, Capital Import Neutrality

JEL Codes: F21, K34

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Mutual Agreement Procedure for the Resolution of International Tax Disputes

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Abstract

Mutual Agreement Procedure is one of the solution way to prevent international tax disputes. It has been defined in article 25 of the OECD sample agreement. In this procedure one side of this dispute applies to the competent authority of the country where resides. Competent authority begins negotiations with the other countries competent authority for taxpayers. These negotiations are not binding for the parties and There is no limitation on the time the negotiations. These negotiations can be end in two years or can be inconclusive.

In this study; information will be given about this procedure's process and its disadvantages. OECD reports which was published in recent years and whether Turkish taxpayers use this method in their double tax avoidance agreements will be analyzed. It has been tried to investigate whether both the Turkey and OECD countries have effectively implemented this agreement.

1. Introduction

The growth of international trade, the increase in the numbers of multinational corporations and their business volumes, and the phenomenon of globalization have led to an increase in international trade. In the globalizing world the trade barriers between countries have been lifted and in this process people and institutions have begun to be involved in commercial activities in countries other than their own countries and problems have arisen in the taxation powers of states. It has been possible for multinational companies emerging from globalization to enter into the field of taxation of more than one country. Taxation is one of the most important indicators of the sovereign rights of the countries and countries want to use this right itself but it brings obstacles for international trade.

Double taxation is the most fundamental problem for using the taxation authority. Double taxation is; the taxation of two or more states on the same taxation issues. To prevent double taxation; states can make a number of regulations in national legislation or can solve this problem with the help of multilateral agreement. Mutual

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Agreement Procedure is one of the way to solve international tax disputes. In this procedure; tax dispute is based on reconciliation that states will conclude their mutual negotiations. This method is not guaranteed to solve problems and it is not binding. And taxpayers are not given the effective role during these procedure. For this reason the effectiveness of this method is being criticized.

About this procedure's application and application's results report was published by the OECD in 2014 and 2015. In this study information was given about this procedure and OECD reports were searched. In this context, the number of applications, the number of cases, the completion periods of the cases, the number of cases completed and transferred are addressed in the mutual agreement procedure. And it has been researched that whether Turkey and other OECD countries use this method effectively. The effective use of this method has been proposed as a solution for the final settlement of international tax disputes.

2. Conclusion

Mutual Agreement Procedure is a diplomatic method, as set out in the OECD model agreement, to which countries resort to double taxation. In this procedure, the competent authorities of the contracting states start discussing whether there is any contrary to the agreement on the petition application. These negotiations can be face to face, video calling, With correspondence or with telephone. As a result of these negotiations, if a conclusion is reached the taxpayer is presented in a report. It is specified in this report how the double taxation will be removed, and the opinion is expressed in this respect. If taxpayer wants he may not accept because this decision is not binding. There is no guarantee to remove double taxation, negotiations between states can be resultless. This process is not transparent and taxpayers do not attend the negotiations. Taxpayers can not examine documents they can only obtain information about negotiation from competent authority. Negotiations are held closed to the public. The biggest shortcoming of this process is that there is no time limit and decisions are not binding. Decisions can be taken in two years or can be resultless.

OECD have published reports on completing the case, providing the process update, and increasing transparency. This report describes the number of cases filed during the reporting period, how many of these cases were transferred, and the cases that were withdrawn within the period. According to these statistics, this procedure is a very popular method in the worldwide. While in 2006; 1036 cases have been initiated by the OECD member countries, in 2014 2266 cases have been initiated. Between 2006 and 2014, a total of 13941 disputes were referred for mutual agreement. In 2014, 5423 cases were transferred. When compared with the year 2013, there was an increase of 18.77%. but when we compare with the year 2006, there was an increase of %130.57. This procedure is generally preferred by developed countries. As of 2014, completion of the case is approximately 24 months. When we look at Turkey statistics, by 2014 there were only 4 cases . In 2014, only 4 of 5423 cases are related to Turkey. When we look at the generally, Turkey does not use this method very often.

The negotiation times for a more efficient operation of this method can be limited to a certain time period. So the dispute will not last for many years. During negotiations, not only the representatives of the states parties, but also the taxpayers should participate in the negotiations and provide information. Negotiations may be binding on states parties to comply with the conclusion. This creates a positive contribution to the process efficiency. It may be important for efficiency to envisage a mutual agreement procedure as a compulsory process for the resolution of double taxation.

Key Words: International Tax Disputes, Mutual Agreement Procedure, Double Taxation, OECD.

JEL Codes: F5, K33, K34.

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Tax Risk Management in Companies: A Survey with regards to Tax Planning and Foreign Subsidiaries

Feride Bakar¹

1. Introduction

Globalization and liberal movements have increased uncertainty and risks in the business world. After financial crises, companies have begun to renew in the risk identification, prevention, mitigation and management. For an effective risk management, risks in all areas in an organization must be identified and included in risk management. Tax risk is briefly defined as “uncertain tax situations and weaknesses in financial controls and reporting related to tax”. Nowadays, corporate risk management spreads to all areas of companies and tax risk management has become a part of it. Therefore, it is necessary to reconsider general risk management and tax planning strategies, especially in large companies. This study aimed to do a survey on mandatory independent audited companies which have more tax risk due to their scale and complexity of transactions in order to evaluate the suitability of companies for tax risk management in Turkey. For this purpose; the survey was applied to 400 managers responsible for financial affairs of companies and the results were analyzed through frequency analysis and t-test. The results are evaluated in terms of whether implementing tax planning and whether having foreign subsidiaries and proposals are given in the conclusion.

2. Literature Review

As the new area, no universal definition of the term “tax risk”, but there are some definitions about it. According to Lavermicocca (2009) tax risk is “uncertain tax positions and vulnerabilities in tax financial controls and reporting”. KPMG (2007) is defined as “the risk of noncompliance with tax laws” and extended the definition as “risk of financial reporting”, “undesirable tax consequences of corporate transactions” and “unbearable tax positions”.

Today, companies are focused on determining tax risks in order to get expected results from tax strategies. Bakker & Kloosterhof (Ed.) (2010) and Henehan & Walsh (2008) present practical applications about tax risk. In PwC (2009), the important aspects of the topic are addressed from the opinions of the practitioners. Lavermicocca (2011) and Erle (2013) are described the topic using opinions of tax experts. According to Elgood, Paroissien and Quimby (2004) tax risk include two main categories contain seven sub-categories: specific risk areas including transactional, operational,

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compliance and financial accounting risks and generic risk areas including portfolio, management and reputational risks. Recently, some international researchers conducted by audit firms such as PwC (2009), KPMG (2007), EY (2007) and Deloitte (2012) seems to focus on determining tax risk. In addition, tax administrations in many countries are trying to increase their voluntary compliance by analyzing taxpayers' compliance risk (OECD, 2004).

3. Methodology

This study aims to evaluate the manageability of tax risk in large companies in Turkey from the perspective of tax planning and the presence of foreign subsidiaries. A scale was developed for Turkey using questionnaires in Elgood, Paroissien & Quimby (2004), Wunder (2009) and Gmeiner (2009). It was accepted that the scale was applied mandatory independent audited companies because these companies have more tax risk. This population consists of approximately 6.000 companies. The sample size was calculated as 362 at 95% confidence interval and 5% margin of error. The survey was applied to 400 managers who are responsible for financial affairs of companies in different cities of Turkey were implemented by a research firm. The results were analyzed through frequency analysis using SPSS 22.0 software. Mainly, companies from textiles (91), iron, steel, metal and machinery manufacturing (74), food (68) and construction and building materials (64) participated in the survey. All of the companies in the survey earned over 80 Million turnovers in last year.

3. Analysis of Data

To determine reliability, Cronbach α coefficient was used before the analysis. Cronbach α coefficient was measured 0,934 for all questions. The results were analyzed using Independent Samples t-test for both tax planning and foreign subsidiaries. The tested hypotheses are as follows:

H₀: There is no difference between the mean of suitability to tax risk management in companies doing and not tax planning/ having and not foreign subsidiaries.

H₁: There is a difference between the mean of suitability to tax risk management in companies doing and not tax planning/ having and not foreign subsidiaries.

The five-point Likert-type scale was used in the survey. Accordingly, if arithmetic mean of answers is close to 5, the participants mainly commented: "strongly agree". In the table, differences in the means of all questions, except (1), are statistically significant in terms of both tax planning and foreign subsidiaries. It was found that companies implementing tax planning perform better in terms of suitability to tax risk management than not implementing and companies having foreign subsidiaries perform better in terms of suitability to tax risk management than not having. The Mann-Whitney U test was also applied to the same questions as the non-parametric alternative to t-test, and the hypotheses were accepted again.

Table 1. Analyses about Suitability of Companies to Tax Risk Management

Questionnaires	Tax Planning Yes:298, No:102							Foreign Subsidiaries Yes:226, No:174					
		\bar{x}	S.D.	F*	p*	df*	t*	\bar{x}	S.D.	F*	p*	df*	t*
(1) The authority to make tax transaction is distributed among the personnel.	Y	4,14	,905	,000	,157	212,7	1,42	4,09	,856	,544	,752	366,8	-,32
	N	4,04	,738					4,12	,882				
(2) Strategic targets for tax results have been identified.	Y	4,29	,689	,000	,000	129	10,23	4,40	,641	,000	,000	270,2	10,67
	N	3,10	1,1					3,44	1,04				
(3) Unexpected external taxation situations are monitored.	Y	4,24	,693	,000	,000	137,2	8,56	4,38	,636	,000	,000	297	10,38
	N	3,34	,980					3,54	,903				
(4) There are internal monitoring procedures in all types of tax.	Y	4,16	,694	,000	,000	137,6	9,26	4,30	,636	,000	,000	294,7	10,73
	N	3,20	,975					3,43	,914				
(5) There are internal monitoring procedures for tax results of activities.	Y	4,18	,753	,000	,000	142,1	7,75	4,33	,674	,000	,000	301,7	9,99
	N	3,34	1,0					3,49	,936				
(6) Tax results are systematically reported to authorities.	Y	4,24	,779	,001	,000	150,4	8,04	4,35	,723	,000	,000	318,3	9,86
	N	3,40	,947					3,60	,931				
(7) Tax-related transactions are regularly monitored.	Y	4,14	,848	,003	,000	157,2	6,74	4,26	,792	,001	,000	332,1	7,8
	N	3,41	,968					3,56	,958				

*F < 0,05 the variances are not equal and the "equal variances not assumed" values are taken.

4. Conclusion

For companies to apply risk management effectively, all areas of risk must be identified and included in risk management. Tax risk management is also important for this. It is important that well-structuring tax department and having qualified personnel for companies wanting to implement tax risk management. Thus avoiding undesirable tax results, the company can be prevented from facing tax-related reputational risk. According to results, companies implementing tax planning perform better in terms of suitability to tax risk management than not implementing and companies having foreign subsidiaries perform better in terms of suitability to tax risk management than not having. Therefore, tax planning is important in determining tax risks. The companies having foreign subsidiaries generally follow more effective policies regarding taxation. As a result, companies wanting to implement risk management more effectively should identify tax risks and determine their strategies with it.

Key Words: Fiscal Law, Tax, Tax Risk, Tax Risk Management.

JEL Codes: K34, K33, H26.

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“Transparency”: As an Instrument to Combat with Tax Havens “A Study on the OECD-BEPS Action 5 (2015 Final Report)”

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1. Introduction

The globalized international financial system facilitates the transfer of millions of dollars from developed and developing countries to tax havens every year (Arslan, 2011:42). A study conducted by a US organization (Citizens for Tax Justice) at a multinational 500 company revealed that three out of every four businesses were active in tax havens (Bennedsen&Zeume, 2015:1).

Apart from the problem of use of the tax havens in the financing of international crimes, the non-taxation of high amounts of funds brings some other problems such as reduction of the budget revenues of the states and the restriction of public expenditures. Therefore, the "tax havens" has become increasingly important be serious and current problem that needs to be resolved for the world economy (Arslan, 2011: 42).

The development of tax havens; the "tax avoidance and tax erosion" initiated by the OECD in 1998 led to the development of a new wave -especially after the global financial crisis- in the war. This second wave was named "transparency" by the OECD (Kudrle, 2016: 1154).

The "transparency" revealed in OECD BEPS-5 Action (2015 final report), which can be used as an instrument in fighting against tax havens, will be examined in the study.

2. Problem Of “Tax Haven”

2.1. In General

The "tax haven" term which means the tax harbor has entered into Turkish from English. Although "tax havens" for the world are a serious and current problem, they do not have a common definition both in international law and in Turkish tax law.

Together with many different definitions in literature, according to OECD, tax haven in the “classical” sense refers to a country which imposes a low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country.

2.2. Characteristic Features of "Tax Havens" by OECD Approach

In 1998 "Harmful Tax Competition" report OECD expressed that, a country should have the following basic elements in order to be defined as a tax haven:

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- No or low tax
- Lack of transparency
- Secret tax ruling
- Cash control

In order to narrow the scope of the study, these conditions will only deal with "Lack of transparency".

According to the first report published in 1998 by the OECD to combat harmful tax competition, two conditions must be met in order for a taxpayer to be considered transparent. First, it must set forth clearly the conditions of applicability to taxpayers in such a manner that those conditions may be invoked against the authorities; second, details of the regime, including any applications thereof in case of a particular taxpayer, must be available to the tax authorities of other countries concerned.

A non-transparent tax regime to share investor identities; It serves both for the formation of tax evasion - despite being considered a crime in many countries -and for the avoidance of the tax, it causes non-substantial transactions that aimed tax evasion to be made (Kudrle, 2016: 1154). For this reason, the OECD has carried out studies on "transparency" and published its final report in 2015.

3. "Transparency" in the Context of OECD-BEPS Action 5 (2015 Final Report)

3.1. In General

"Transparency" is essentially a descriptive and paradoxical relationship between governments and private actors, and the term is not used in the way that has since become most familiar in the international taxation literature : the collection and sharing of information about the economic circumstances of private parties. Nonetheless, once OECD was refocused solely on tax evasion, now the dominant meaning became the *de facto* policy goal (Kudrle, 2016:1168).

Tax transparency emerges as an important element in the fight against aggressive tax planning. Today especially in the taxation of corporation, it is observed that non-transparent practices of the countries more frequent and apply advanced.

3.2. Review of "Improving Transparency" in the Final Report

OECD with 5 Action final report; has made considerable progress on the review of the 1998 criteria about harmful tax practices, the identification of such practices and the drawing of new frameworks for combating them. According to the final report; In order for a taxpayer to benefit from a preferential tax regime, "substantial activity" must be mentioned. On the other hand, taxpayers should be made more transparent with some specific rules (Liebman et.al., 2016:103).

In final report; in the area of transparency, a framework covering all rulings that could give rise to BEPS concerns in the absence of compulsory spontaneous exchange has been agreed (OECD, 2015: 48). The framework covers six categories of rulings: (i) rulings related to preferential regimes; (ii) cross border unilateral advance pricing arrangements (APAs) or other unilateral transfer pricing rulings; (iii) rulings giving a downward adjustment to profits; (iv) permanent establishment (PE) rulings; (v) conduit rulings; and (vi) any other type of ruling

where the FHTP agrees in the future that the absence of exchange would give rise to BEPS concerns (OECD, 2015: 48).

The Final Report indicates with which countries the information is to be exchanged and provides more general guidance on how to apply the overall framework (Liebman et. al., 2016: 105).

4. Conclusion

With the impact of globalization and the emergence of capital actors with multinational structures, international tax law has led to the focus on double taxation firstly. The precautions via the double taxation treaties, was very limited effectiveness because of it was only effect on the parties of the agreement. The same applies to information exchange agreements.

The limited impact of the bilateral nature of the agreements has led to the development of tax havens and the wave of "transparency" in international tax law (Kudrle, 2016:1181).

The OECD has foreseen new criteria for ensuring "transparency" with its final report and promises a general regime based on information exchange.

Key Words : Tax Law, Tax Havens, Transparency, Harmful Tax Competition, Tax Evasion

JEL Codes : H20, H26, H25

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The Dawn of Tax Riots: Taxation Principles

Ali Rıza Gökbnar¹

Alparslan Uğur²

1. Introduction

People have always opposed their life-long, hard-earned belongings being taken from them. Throughout the history, state has always been the most important organization that takes its citizens' earnings from them through taxation. People sometimes had to sell their wealth to be able to pay their taxes; they sometimes migrated to other countries and those who could not do either of these have rioted against state as the last measure.

Finance professionals have always tried to increase tax revenues and to minimize taxpayers' reactions to taxes. However people have always searched for ways to have a say in the implementation of all taxes paid to the state and they struggled for this right for centuries. During this struggle, citizens gained many tax-related rights and this led to development of rules for a more equal and universal taxation.

This study will focus on the reasons, development and outcomes of tax riots in Western societies, each of which led to a separate taxation principle. The study will further look into the similarities and differences of tax riots in Turkey and the West and it will analyze the outcomes of riots in terms of taxation principles.

2. Tax Riots

Taxation contributed to political riots and revolutions. Some scientists claim that big and unexpected tax increases are the most important triggers in supporting popular riots in western history since it was not possible for the people to pay the taxes demanded by the states. Some researchers say that farmer societies have objected against extra strict taxation practices such as capitation tax or fixed land taxes which were practiced instead of tax increases during bad crop yield seasons and other economic disasters since this would risk their survival. Furthermore, both these theories claim that taxation practices that take place without first becoming law in the government programmes contribute to the riots and protests of the lower classes in the society. Increasing taxes have also caused protests from higher classes. When riots hindered collection of taxes, financial crises of states deepened and this caused fractions in the state, and eventually led to revolution. In this sense, revolution is a result of taxation. Revolution and riot theories are based on analysis of state's financial practices (Campbell, 1993:175-176).

Considering tax as an indicator of citizenship has been an important stage in forming tax culture. Taxes, which were initially collected as donation and aid, have later turned into state being a stakeholder of people's incomes based on state's sovereignty right and this raised the problem of by whom and how taxation authority is used. First riots against king's arbitrary

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taxations aimed at bringing the king back within their legal boundaries. Since the Middle Ages, rightful reactions, criticisms, riots and revolts against taxation have led to the formation of taxation principles. As a result of tax riots, criteria such as tax payment duty and tax payment power have become concrete and the relations between citizens and state have been included in the legal boundaries (Musgrave, 1959:61).

3. The Dawn of Tax Riots: Taxation Principles

Equality and universality principles of modern tax theory were a part of Christian philosophy from the first century and primitive theory at the end of the middle ages.

Ibn Khaldun discussed basic rules of taxation in his book *Muqaddimah*, which he wrote in 1377. Khaldun said that taxes were collected from individuals based on their political power in order to finance state's public spending and that taxes, which are the most important income of the state, evolved in parallel with state's existence. Khaldun recommended the rulers to divide their war gains rightfully and equally among those who deserve them, not to exclude their aides from paying taxes, not to make unfair offers, and not to grant privileges to anyone because they are rich. According to Khaldun, nobody should be exempt from tax because they are rich, noble or ruler themselves or because they are close to those who are and taxes should be collected from individuals in amounts that do not exceed their ability to pay, and according to the rules of fairness and equality. Khaldun defined basic taxation principles such as universality, fairness and equality (Falay, 1987:5).

As of 15th century, taxation policy started to develop within the framework of the following understanding: "taxes should be collected with taxpayer's consent; otherwise it will be against right of property based on natural law". Bodin, who based tax theory on this fundamental thought, said that tax should be collected fairly and in accordance with law (Herekman, 1988:5).

Among the most important reasons of the American uprising against the British rule was the existence of heavy and unfair taxes. The article number 13 of the Declaration of the Rights of Man and of the Citizen, dated 26 August 1789, says: "For the maintenance of the public force and for the expenditures of administration, a common contribution is indispensable; it must be equally distributed between all the citizens, according to their ability to pay" and its article 14 says: "Each citizen has the right to ascertain, by himself or through his representatives, the need for a public tax, to consent to it freely, to know the uses to which it is put, and of determining the proportion, basis, collection, and duration" (Aliefendioğlu, 1991:12). Development of parliamentary systems, industrial revolution and social state understanding in the western societies caused fairness and equality principles to be implemented and legal rules replaced the arbitrary practices in taxation.

As of 17th century, economists have come up with various ideas about taxation principles; however, discussion of taxation principles in financial literature has started when especially A. Smith and A. Wagner explained its principles. Every one of four basic principles of taxation, as stated by A. Smith as "equality", "certainty", "convenience" and "economy", is the summary of basic principles that were born following the tax riots in the past (Sayar, 1975:99).

4. Conclusion

Even though the implementation vary across countries, there are some important reasons of tax riots such as distrust towards government and state policies, approach of tax

administration, consideration of taxation as a burden, misuse of public spendings, inconvenience of tax payment for taxpayers, high level of tax rates, corruption, overuse of public resources, and weakness of citizenship feelings.

Indispensable taxation principles of tax systems, which are also like constitution of taxation, emerged at the dawn of tax riots that killed many. Throughout history, people have tried to assure that taxes are collected in an equal, certain and most convenient manner and have achieved a lot after all their efforts.

Key Words: Fiscal History, Tax Evasion, Taxation Principles.

JEL Codes: N20, H26, H29.

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Assessment of Narrowing Problem with Advance Ruling of the Financial Legislation Regarding Urban Transformation

Ufuk Gergerliođlu¹

1. Introduction

In order to ensure the safety of life and property and, to create a healthy environment, a law was enacted on 16 May 2012. This law aimed to transform the areas under disaster risk. Later on, the implementing regulation for this law went into effect. This legislation also serves urban transformation. In the interest of supporting this process, the legislation provides exemptions, in particular with respect to taxes and charges. However, in this regard, advance rulings given by administrative units are narrowing the scope of tax and charge exceptions.

Within the scope of this information, first of all, the concept of urban transformation is mentioned in this study. Then, the paper provides information on conceptual and tax liability. Later, advance rulings given by authorized administrative units are mentioned. Finally, advance rulings are assessed in terms of the administrative procedure and the proceedings.

2. Associating the Concept of Urban Transformation with the Law Converting the Areas under Disaster Risk

In this section, the concept of urban transformation is first explained and then existence of a connection between the law and the field of application is revealed.

2.1. Explanation of the Concept of Urban Transformation

The Law Concerning the Transformation of Areas under Disaster Risk basically exhibits two different views. On one hand, this law is directly related to the safety of life and property. On the other hand, this law also helps urban formation on the basis of planning and urbanism (Oy & Nazik, 2016) This law is perceived as the law of urban transformation in the eyes of the public (Ozsunay, 2015). When the relevant law is examined, it is seen that this law serves the urban transformation and encourages urban transformation. As a result of this, it can be expected that citizens will support this process (Oy & Nazik, 2016) From conceptual perspective, however, urban transformation presents a much broader spectrum.

2.2. Application Areas of Urban Transformation

The application area of urban transformation has a wide range. The application areas of urban transformation in Turkey are gathered under four main headings. One of these is related to mitigation of urban risks and disasters (Demirkiran, 2008). The Law Concerning the Transformation Areas under Disaster Risk is compatible with the type of urban transformation application to mitigate disaster damage and urban risks.

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3. Legislation on Transformation of Disaster Risk Areas and Explanation of Tax Liabilities related to this Legislation

Under this heading, the legislation on the transformation of Areas under Disaster Risks is explained and tax and charge exemption provisions with regard to the related law are examined.

3.1. Explanation of the Legislation on the transformation of Areas under Disaster Risk

Article 1 of the Law on the transformation of Areas under Disaster Risk, numbered 28309 dated 31/05/2012 states the purpose of the relevant law. According to the article 1, the purpose of this law is;

"In the areas under risk of disaster and places where risky structures are located outside these areas"

A) To comply with science and art norms and standards,

B) To constitute healthy and safe living environments.

Implementation Regulation dated 15/12/2012 and numbered 28498 defines the field of application;

A) Reserve building areas and risky building areas determined by Ministry

B) Risky areas determined by the Decision of the Council of Ministers (Article 16/Sub-Art.9/I).

3.2. Assessment of the Implementing Regulation on this Law and the Law Concerning the transformation of Areas under Disaster Risk Act No. 6306 within the scope of Tax Liabilities

Subparagraph 9 of Article 7 of Law No. 6306 states that the tax liabilities in the scope of transformation are; transaction, contract, transfer, registration and application. Again, in the same paragraph of the same article, the taxes, charges and other exceptions under the transformation are listed. Exceptions relating to taxes and charges are clearly stated in the relevant law and in its implementing regulation. It is seen that tax and duties exceptions are explicitly stated in the relevant legislation when both the law on the areas under disaster risk and the implementing regulation related to this law are taken into consideration. Nonetheless, some taxpayers have the right to request information or opinions by applying to the relevant administrative units within the scope of this legislation. As a result of this process, taxpayers can face a number of problems.

4. Assessment within the scope of the Legislation Concerning the Transformation of Areas under Disaster Risk of the Advance Rulings Given by the Revenue Administration and Revenue Office

The Revenue Administration and Revenue Office have promulgated a number of advance rulings under the legislation on the transformation of disaster risky areas so far. Some of these are against the taxpayers. When these advance rulings, which are negative for the taxpayers, are evaluated together, it is understood that the relevant advance rulings are not given within an optimistic approach. Although the urban transformation is fundamentally supported by the

state and there are many facilitating provisions regarding the taxpayer in the relevant legislation, it is a contradiction that the administrative authorities should try to narrow down the meanings of the advance rulings. At the same time, these are also incompatible with tax court decisions and constitutional rights.

5. Declaration of the Concept of Advance Ruling and the Evaluation of the Effects of Advance Rulings within the frame of the Legislation Concerning the Transformation of Areas under Disaster Risk in terms of Administrative Action and Litigation

The advance rulings are secondary sources within the legal system (Oner, 2015). Therefore they can not establish a new norm feature (Celik, 2003). This situation arises from the fact that the advance rulings are considered only in the form of administrative opinion (Senyuz et al., 2017). In this context, these are not binding for taxpayers and judicial organs (Dogrusoz, 2005). However, if the rights of the taxpayers are violated due to the advance rulings, they must resort to the case and this process can change the administrative process (Celik, 2003). It is known that the advance rulings are given according to the requests of the taxpayers. However, if these advance rulings are contrary to the laws and the litigation process has been initiated accordingly, the results of the trials for the opinion of the advance rulings will be decisive. These views may or may not be legitimate according to the conclusions of the judgment (Ak, 2016).

6. Conclusion

Due to the legislation on the transformation of disaster risk areas, taxes, charges and fees are not applied, especially for transactions related to risky structures and areas and reserve construction sites. Relevant legislation promotes urban transformation and is constructive. However, it is not possible to say the same thing about the advance rulings given under the legislation. Some advance rulings promulgated in 2014-2015 narrow the scope of exceptions for stamp tax, value added tax and charges for related legislation. Therefore, the existence of these advance rulings can slow down the process of urban transformation. On the other hand, the related documents are not compatible with the right to housing, which is a constitutional right. This should be well understood by the authorities of the tax administration who promulgate the advance rulings. At the same time, protective and supportive laws and regulations should be applied for taxpayers.

Key Words: Urban Transformation, Tax Exemption, Charge Exemption, Advance Ruling

JEL Codes: H20, H24, H29

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Fractional Pricing and Tax Loss

Cem Barlas ARSLAN¹

Abdullah ÖMERCİOĞLU²

1. Introduction

One of the important components of the informal economy is informality of taxes. Especially in economies where the document order is not fully processed and tax consciousness is ineffective, informality of taxes reaches important aspect.

The Turkish economy is also an economy that is exposed to informality of taxes. Both the structure of the tax system and the tax consciousness cause the increase of tax losses and tax evasions.

Shopping by card payment prevents the loss of tax which is reflection of tax unconsciousness as seems caused by the lack of document arrangement or receiving. Especially the tax-free income which is a consequence of fractional pricing policies, is precluded by card payments. For the whole economy, because of the impossibility of measuring that kind of loss, in this study examined the pricing strategies of five companies operating in the large grocery sector and tried to reveal fractional prices.

2. Informal Economy

The informal economy is a complex fact involving multidimensional and diverse fields of activity (Revenue Administration, 2009: 3). Although different in size and character, informal economy is a common problem especially in developing economies.

In Turkey, informality is one of the major problem of the economy. There are some studies to detect existence of the informal economy, conclusion of that studies different dimensions are mentioned. However, according to a study that maintains its validity, the informality rate in Turkey is estimated to be 32.1 percent (Schneider, 2002: 8). Reasons of informal economy in Turkey which is estimated around 1/3 of the total economy are economic structure, size of enterprises and characteristics of enterprises, shortcomings in institutionalization, tax policies, political and economic crises, public administration and bureaucracy, social consciousness, employment politics, cash economy and demographic factors. (Revenue Administration, 2009: 12-31).

An important component of the informal economy is informality of taxes. Turkey's tax consciousness is weak so the documentation of taxable transactions is low and the loss and evasion rates are high. In our opinion because of gaining that consciousness is difficult and requires a long process, the most effective way decreasing the informality of tax is to record financial transactions through the banking system.

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3. Fractional Pricing

The price is defined as the sum of the monetary values paid by the consumer for the benefits to be gained by having or using a good or service (Ay & Kahraman, 2010: 58). There are various pricing methods and psychological pricing holds an important place in marketing techniques at the present time.

Psychological pricing is the presentation of prices or price spelling patterns in different ways that affect consumer perceptions (Biçici, 2014: 102). These pricing methods, which provide a psychological superiority to businesses, are fractional pricing, prestige pricing, inflexible pricing and quantity discount pricing.

As a psychological pricing method, fractional pricing is a strategy that allows dealers to provide fractions below the real price (Canbaz and Geroğlu, 2015: 73). Fractional pricing also referred to as attractive pricing has emerged as a frequently used method in recent periods, attached to that a serious numerical perception management can be accomplished with it such as ..., 99, ..., 95 (www.eticaretmag.com). Consumer's perception can be changed by writing the fractional parts in small sizes.

That's for sure, fractional pricing cause an informal income. Thus the smallest coin is 5 dime and it's not suitable to give back in change.

The fractional pricing method is found in almost every sector. In sectors such as furniture, electronics, white goods and automotive where product prices are at a high level, products are generally purchased using card payment systems. However, in the food sector, it is more prevalent that fractional pricing is preferred, as well as cash payment is more intense.

According to the household consumption expenditure survey made by Turkish Statistical Institute (TÜİK); average monthly expenditure per household is 3.043 TL and 20.2 percent of this is devoted to food and non-alcoholic beverages (www.tuik.gov.tr). On the other hand, according to research findings; in groups sorted by income per 20 percent, the first 20 percent group (the lowest income group) can devote only 30.2 percent of their income for food and non-alcoholic beverages. However the fift 20 percent group (the highest income group) devote 14.6 percent of their income for the same needs (www.tuik.gov.tr).

Table 1. Price Policies of Groceries

	NUTRIMENT		HYGIENE		STATIONARY		TOY		ELECTRONICS	
	Total.	Fract.	Total.	Fract.	Total.	Fract.	Total.	Fract.	Total.	Fract.
A	1.766	1.519	513	486	46	41	38	36	98	39
M	1.216	1.003	315	209	39	15	42	24	44	18
K	486	259	210	124	25	12	21	2	71	11
C	951	796	118	88	28	10	29	22	51	15

Consumers prefer to satisfy their basic necessities from the groceries. In this context, the prices of the four major markets in Turkey are handled separately and the results are presented in Table 1. As it can be seen, non-electronic products are being applied to fractional prices. If these prices remain fractional at the safe stage; when paid with cash, create inflation between 1 to 4 Dimes per one consumer and make undocumented income for businesses.

4. The Impact of Card Payment to Informal Economy

One of the most important problems of the Turkish economy is the high rate of informality. Card usage in shopping, legally force the businesses which admit to card payments, invoice the transactions or give sales receipts. This would reduce the tax loss and the amounts that can not be recorded due to fractional pricing will be recorded. This situation will contribute positively to consumers and general economy.

During the purchase of goods and services, the dimension of prevention of tax loss of payments made by card, especially important for Value Added Tax; Income Tax, Corporate Tax and Spacial Consumption Tax.

4.1. In Terms of VAT

In the case of payments made by card, it is obligatory for the seller to give a receipt or invoice. Because if the company or the person who sells the goods or performs the service doesn't edit the document for card paid sales, this action can easily be uncovered by a research on bank records. Likewise, the case is not limited to commercial activity such as buying, selling, manufacturing or operating services. Those who earn self-employment income have to arrange "self-employment vouchers" for their payments made by card.

4.2. In Terms of Income and Corporate Tax

Another perspective of payments made by card is about to prevention of income and corporate tax loss. Indeed the taxpayers who has to document the transactions they have made, will declare much more income or corporate tax and so pay more tax.

4.3. In Terms of SCT

Special consumption tax is almost quarter of our tax revenues. When we consider the VAT calculated on SCT, this rate is increasing even more. There is an income loss not only in VAT, income and corporate tax for undocumented transactions but also in SCT for the goods. The tax loss will be reduced by documenting the sale of goods subject to SCT.

5. Conclusion

There are many positive effects of the card usage on card users, member businesses, card issuers and national economy. Among these effects, the contribution to reducing informality is on the frontline. Especially, in the case of transactions with a fractional price policy, it is prevented from getting informal income through card payment. In this respect, it is necessary to increase the usage of the card by creating the card consciousness and reducing the negativities of the card payment systems.

Key Words: Card Payment Systems, Informality, Fractional Price, Tax Loss

JEL Code: H20, E64

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Tax Base Increase under the Legislation on Claim Restructuring and Its Tax Related Consequences

Yasemin Taşkın¹

1. Introduction

At the end of the tax inspection process, additional or ex officio assessment can be done and due to the result of tax loss, tax penalties and irregularity fine can occur. In the legislation on claim restructuring if certain conditions are met, taxpayers shall not be subject to tax inspection.

In this context we will be focused on place of tax inspection in tax assessment process, the impact of tax assessments on the behavior of taxpayers and tax related consequences of tax base increase according to Code No. 6736 including legislation related to the tax base increase. The characteristics and consequences of tax inspection in tax procedural law, taxpayer behavior and reaction in response to tax inspection and consequences of the tax base increase against ineffectiveness of the tax inspection will be discussed in this study.

2. Tax Inspection in Tax Procedure Law

Tax inspection, also defined as tax revision is a public external audit carried out during or after tax assignments to detect illegal and fault transactions (Bayraklı et. Al, 2012: 112-113). Tax inspection can be regarded as a one-sided and simplified process due to its preparatory nature to the assessment process. (Saban, 2014: 449).

In the Tax Procedural Law, the tax inspection has been accepted as an audit provision in a broad sense. (Mutluer & Dayanç: 92) According to article 134 of the Tax Procedural Code; tax inspection is audit of taxpayers' statements and the information, documents and records that constitute their basis. The purpose of tax inspection is to investigate, determine and verify the accuracy of the taxes to pay. The tax assessments made are not applicable to all taxpayers, nor do they include taxpayers. The tax inspection is not applicable to all taxpayers nor does the inspection not include taxpayers only (Oktar, 2016: 222).

With the tax inspection, not only books and documents are examined, witness statements, intelligence archive information and material controls are also investigated. In addition to the results of the actual inventory of the economic values included in the enterprises, the components shown in the statement are also examined (Kırbaş, 2012: 157).

3. Taxpayer Behaviors in Tax Inspection

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As one of the tax governance tools, tax inspection create various effects on taxpayers. Taxpayers who think that they may be exposed to tax inspection processes are more sensitive about tax compliance and are adapting more quickly to the taxation process (Taşçı&Mutlu, 2013: 219). The essential of the tax inspection is to reach the highest level of net tax revenue. However, inspections should not be an inquiry to prove taxpayer is unlawful in all conscience. Otherwise, negative consequences for tax ethics arise. (Turhan, 1987: 93) However, attention should be paid to certain aspects in order to achieve success in tax inspection and to obtain positive results in terms of tax ethics. Informing taxpayers in time, moderate the time and labor costs actualized due to the inspection and the competence of the officers can be countable among them (Schmölders, 1976: 100)

4. Consequences of the Tax Base Increase Against the Ineffectiveness of the Tax Inspection

Taxpayers as a result of the recalculated amount of substantive tax base² during the inspection may be faced with penalty assessments. Occasionally, there is an assurance that taxpayers will not be subject to a tax inspection on the relative periods in condition that the taxpayer raised the tax base for the previous periods.

Final regulations concerning the tax base increase are included in article 5 of the Code No. 6736 on Restructuring of Claims (Debts) Law. Within the framework of this regulations, the taxpayers will not be subject to an inspection of income and corporation tax for the current years. The law also states that later on no further assessment will be made on these type of tax for the concerning years. Regarding the related arrangement, Income tax (withholding tax) and Corporate tax (withholding tax) were included in tax base increase under certain conditions. It is also not necessary to increase Income Tax base and Corporate Tax base to benefit from this increase.

In addition, the taxpayers who increase the tax base regarding the regulation value added tax will also not carry out the value added tax inspection and the assessment of the taxation concerning periods in which they accept the tax payment. Taxpayers benefit from tax base-tax increase advantages if they fulfill the conditions in their respective jurisdiction.

According to the regulation introduced by the related law; the right of inspection of tax administration is also reserved for years or periods that tax base have not been increased.

Similar arrangements can be seen in existing legislation before. For example, article 6 of the Code No.6111 on Restructuring of Certain Claims (Debts) and Amendment on Social Insurance and General Health Insurance Law and Some Other Laws and statutory decrees includes regulations on the tax base increase. Looking at the implementation results of this law, it is seen that the purpose of the tax base increase is realized within the scope of restructuring. (Aksümer:2014.) Similarly, the application results of the tax base increase introduced with the Law No. 6736 will be seen more clearly in time.

5. Conclusion

² The technical, physical or economic magnitude basis on which the taxpayer's payment is calculated is defined as the base. A variety of methods (statement method, lump sum method, administrative discretion method, presumption method) can be used to determine the basis.

As taxpayers consider tax as a cost factor and according to this consideration efforts to reduce this burden can sometimes be against the law. In this process, tax inspections by the administration are emerging as a pressure element. Some advantages are provided to taxpayers by law for the structuring of claims issued on different grounds over time.

The tax related consequences of the tax base increase regulations by various laws differ for the administration and taxpayers. From the point of view of the administration, it is ensured that more tax is collected within a shorter time with the tax base increase. For taxpayers, it provides legal security because they know that they will not be dealing with tax inspection in the forthcoming time.

In view of recent legislation, it is possible to see various regulations for the tax base increase. Tax base increase effects tax revenues and consequently it will affect the economy. However, in order to survey these effects, the results of the implication of the law should be appear. Therefore, time is required to see whether the Code No. 6736 has attained its purposes' and the consequences concerning tax base increase. Recent legislation also affect taxpayers' tax compliance. The positive and negative effects of this compliance should also be evaluated separately.

Keywords: Tax Law, Tax Inspection, tax base, tax base increase, taxpayer behaviors

JEL Codes: H2, H29.

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Improving Income Distribution in Turkey

Orhan Şener¹

1. Introduction

Income distribution in Turkey is one of the worst among the member countries of OECD, as to Lorenz Curves and Gini coefficients are concerned. The state of income distribution in Turkey not only affects the quality of the democracy, but it also reduces the social welfare of the citizens. OECD Better Life Index reveals that income distribution in Turkey is one of the worst among the member countries (OECD Better Life Index, 2016). This index includes those public services that affect the income distribution in real terms. Especially those services such as education, health, mass transportation, social housing and social security services are the most income improving public expenditures. Because, monetary policies undertaken in Turkey, not only resulted in heavy increase in inequality and poverty, but also decreased the social welfare of the households. In dealing with these problems I rely on the basic fiscal policy goals of the state as formulated by Richard Musgrave (Musgrave, 1958, 45). He claims that unless three main goals of the fiscal policy are realized, it is impossible to secure the four macro economic sub goals of the government. The main goals of the government comprises efficiency in resource allocation, fairness in income distribution and macro economic stabilization. Although, I consider interrelatedness and conflicts among these main and subgoals of modern fiscal policy, but I study the subject matter from the public and welfare economics point of view.

2. Methodology

The issue of fair income distribution is studied by mainstream economics through various models that differ from that of fiscal policy. The traditional economics relates the determination of income distribution to marginal productivity of factors of production. This approach holds true provided that market mechanism operates efficiently. But there are too many imperfectly market conditions in which distortions such as externalities, monopolies, natural monopolies and inefficient resource allocations occurs. In addition to these, there are many non economic factors contribution to the unfair income distribution (Şener, 2014, 14-39). For this reason I consider the literature of public economy and fiscal policy, rather than market type solutions. According to Musgrave's formulation of the goal of the public economy, the first priority must be given to secure the efficiency in resource allocation. Because,

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efficient resource allocation in an economy increases gross national production enabling higher per capita income. Thus, second priority must be given to improve the income distribution. When these two main goals are fulfilled, then it is possible to realize the third main goal of macro economic stabilization. The mainstream economists give priority to macro economic stabilization which includes sustainable economic growth, full employment, price level stability and keeping the balance in international trade. However, giving priority to these macro economic subgoals didn't help to improve the income distribution. Since 1950s all Turkish governments have given priority to decrease inflation rate and to increase exports at the expense of inefficient resource allocation and unfair income distribution. In addition to these, monetary policies applied by the governments resulted in unfair income distribution in Turkey.

3. Measurement of Income Distribution in Turkey

There are two methods employed to measure the fairness in income distribution; The Lorenz Curves and Gini Coefficients. Especially, Gini Coefficients are mostly used to compare the state of income distribution in international comparisons. Gini coefficients shows that, income distribution is the worst in the USA and in Turkey among the OECD member countries, owing to heavy privatization, deregulation and fiscal liberalization policies. Gini coefficient for Turkey is not properly measured, because income slices in terms of quintiles are measured through questions asked to households. Thinking of their answers about their income might be used by tax administration, so high income people are likely to announce low income. Thus, Gini coefficient for Turkey is measured lower than that of its real value. On the other hand, distribution of wealth among the income groups are not considered in measuring the state of income distribution in Turkey.

4. Factors Affecting the Income Distribution

There are too many factors contributing to the unfair income distribution such as tax structure, educational opportunities, father's profession, quality of democracy and administrative system. Their adverse effect of these factors on income distribution will also be briefly included in this paper. But the affect of social services will be studied in detail.

Although, income distribution is defined in Turkish economic literature, as the distribution of national income among the members of the society. However, it is meaningless if we don't take into consideration of the unfair wealth distribution that exist in the society for the last decades. For instance, in Turkey 1 % of the population holds 54 % of the national wealth in 2014, while it was 39% in 2002. Whereas, it is between 1.5 % and 6.5 % of the national health hold by 1 % of the population in other European countries, where the income distributions is fair.

The figures released by Legatum Institutions show the relationship between the quality and quantity of public services, highly affecting the state of income distribution

in Turkey. The figures in terms of ratios of Turkey's ranking to OECD show the welfare level of Turkish society is too low. Legatum Institute index shows that Turkey ranks 78th as to prosperity among the nations in 2015.

OECD's Better Life Index includes the the most important indicators, showing the quality of the life in Turkey is the lowest in 34 countries. which is the lowest because it includes too many criterias to measure the welfare of a country. The following topics reflect what the OECD has identified as essential to well being in terms of material living conditions (housing, income, job) and quality of life (community, education, environment, governance, health, life satisfaction, safety and work life balance.

Education, due to deregulation of high schools and higher education, equal opportunity to education is not given to students of low income families. Thus, potential positive externalities to be generated through education is not internalized by the society, giving rise to unfair income distribution.

There is a close relationship between the fathers occupation and the education that their kids take. Thus, sons and daughters of lawy ers,engineers and doctors are getting the same diploma of their parents. This, enables them to perform high paying jobs, since clients and bureaus are provided marginal cost of zero production case.

Tax structure in Turkey heavily distorts the fairness in income distribution. Because, the share of the unfair taxes (consumption taxes) is 70% and fair taxes (income and corporate taxes) is 30 % of the general budget in Turkey, whereas the reverse percents holds true for OECD countries. In addition to this, some luxury goods such as yachts and precious jewellery are not subject to special consumption and value added taxes, whereas necessities are subject both taxes.

Although, 15 % proportionate tax rate is applied on interest income, while the progressive tax rate ranging between 15 % and 35% is imposed on wage and salary incomes, violating the discriminating principle.

One of the most important indicator of the unfair income distribution is being used in international comparison is misery index. As it comprises both the inflation and unemployment rate, with the figures 10.5 % inflation and 12.6 % unemployment rates Turkey's ranking is about the same as Greece. Beside this, women participation to workforce in Turkey is only 29.8 and the rate of youth neither in employment education or training is 27 % in Turkey, about the same that of Greece in OECD.

According to the European Commission, 1% increase in corruption reduces the economic growth at 0.72 percent. Corruption Perception index released by Transparency International, Turkey ranks 66th with the 42 score out of 100 in 2015, which was 49 in 2012 (cpi, 2014-2016). This means that, increasing level of corruption not only distorts income distribution, but also reduces the public funds to be allocated to provide public services.

5. Conclusion

All the factors adversely affecting fair income distribution and the methods employed in measuring the Gini Coefficient show that, income distribution is unfair in Turkey. In order to improve unfair income distribution in Turkey, firstly the size of the government should be increased from 25 % to European average of 45 %, calling for rising the tax revenues twice. In order to increase tax revenues, all resources must be used efficiently, corruption and mismanagement problems needs to be solved, equal opportunity in education must be given each students, the share of the direct taxes to indirect taxes must be reversed in line with the ability to pay taxation principle. Tax evasions, tax escapes, tax loopholes and tax incentives must be minimized. Thus, the proper size of the public sector will enable the governments to provide those public expenditures that will improve the income distribution in real terms. I also suggest that expenditures on health, education, social housing, mass transportation and social security services must be provided efficiently both in quality and quantity. However, governments in Turkey tried to improve the unfair income distribution through some monetary and in kind aids to low income families since 1950s. This monetary policy is also used as a vote maximizing mean to increase the votes to be given to political parties.

Keywords: Inequality, Income Distribution, Lorenz Curve, Gini Coefficient, State Intervention

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Tax Compliance in a Political Country Empirical Evidence from Turkey

Sacit Hadi Akdede¹

1. Introduction

This paper investigates, at the city level aggregation, the relationship between the political attitudes and tax effort of the cities with the Turkish data. Political attitudes of the cities are measured by the vote shares of different political parties, governing conservative right party and the main opposition party respectively. Tax revenue effort is usually defined as the tax revenue as a percentage of the gross domestic product of the aggregation unit like a country, region or a city. However, in our case here, since GDP per capita is not available at the city level for the years beyond 2001, tax revenue effort is defined as the tax revenue per capita. Turkey has a centralized system and does not have the fiscal federalism. Therefore, cities or local governments do not have any legal power or authority to levy tax on the citizens who reside in the limits of the border of the city. In other words, the main elements of taxation are determined in the Parliament. All the cities are subject to the same rules even though from time to time there would be some special development incentives like lower tax rates for some underdeveloped cities.

2. Literature Review

Dennis et al (2007) finds that democratic control of the state is positively associated with a relatively lower tax burden on the poor. They investigate the states in the USA. Unfortunately, in our data set, we don't have data about the tax burden of different segments/groups of the city. Dennis et al.(2007) uses political strength as the percentage of governor and legislature vote shares of two different parties, democrats and republicans.

Dennis et al. (2011) finds that the effective state and local tax rate for the top 1% of income households as a percentage of the effective state and local tax rate for the bottom 20% of income households in 2002 is significantly influenced by whether a state has a multi-rate income tax, right-to-work laws, the liberalism of a state's electorate, the average tax burden in a state and past tax policy.

Sen Gupta (2007) also investigates the effects of political variables on tax revenue effort in a cross country setting. He also uses some governance indicators as political and institutional variables to understand their effect on tax revenue effort. He finds that corruption has a negative effect on revenue performance, whereas political and economic stability have a positive effect.

The effects of political parties on tax burden are also investigated in Reed (2006). He finds evidence that political parties significantly impact state tax policy. His two main results are: (i) Tax Burdens are higher when Democrats control the state legislature compared to when

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Republicans are in control. (ii) The political party of the governor has little effect after controlling for partisan influences in the legislature. He also finds that a state's tax burden would be 0.315-0.524 percentage points higher at the end of a 5-year period if Democrats rather than Republicans control the legislature.

Piancastelli (2001) finds that tax effort is affected positively by higher per capita income, higher trade share of the GDP and higher industrial base of countries.

After this brief literature review, next section defines the data that is used in the empirical analysis in this paper.

3. Data and Statistical Analysis

This section describes the variables used in the regression analysis and descriptive statistics. The following Table 1 gives some descriptive statistics.

Table 1: Descriptive statistics about some variables

	Mean	Median	Max.	Min.	Std. Dev.	Obs.
Import Per Capita 2013	3.68E-06	2.49E-06	2.26E-05	5.87E-08	4.16E-06	81
Import Per Capita 2012	3.83E-06	2.69E-06	2.15E-05	6.05E-08	4.01E-06	81
AKP2011	0.51	0.52	0.70	0.16	0.13	81
CHP2011	0.21	0.22	0.56	0.01	0.13	81
Average TCR Income tax	76.58	77.13	87.33	58.58	6.05	81
Average TCR Income tax with tax returns	39.76	39.48	62.00	21.60	8.10	78
Average TCR Corporate Tax	64.57	65.88	91.00	36.65	11.78	78
Average TCR Total Tax	71.74	73.40	92.88	24.75	10.12	81
TCR 2015 Corporate Tax	60.15	62.70	91.90	0.80	15.91	79
TCR 2014 Corporate Tax	63.81	64.75	89.60	2.20	15.92	80
TCR 2013 Corporate Tax	65.80	67.35	91.00	1.20	14.47	80
TCR 2012 Corporate Tax	66.64	68.80	91.50	8.70	13.95	81
TCR 2012 Income tax with tax returns	45.06	45.25	66.80	9.60	9.05	80
TCR 2013 Income tax with tax returns	41.13	42.50	73.30	3.10	10.50	81
TCR 2014 Income tax with tax returns	35.82	35.30	77.20	13.20	10.67	80
TCR 2015 Income tax with tax returns	35.62	35.50	70.00	11.50	10.34	80
ATCRCIS	82.37	83.08	91.68	64.88	5.97	81

Source: Author's own calculations

3.1. Regression Analysis

This section gives the regression results. The following Table 2 gives basic regressions.

As can be observed from the regression results, cities with relatively higher votes shares of governing right wing party, have smaller tax compliance. This is a significant finding that confirm the findings of Akdede (2016). A wald test is conducted to test the equality of coefficients of relative vote ratios over the years. The hypothesis is rejected. That is, the effect of RVR is getting bigger from 2012 to 2015. In another words, cities which have high RVR in

2011 election have smaller tax compliance rate over the years. The effect of RVR is getting bigger.

Table 2: OLS Regressions with mean (2012-2015) Tax Compliance Rates (TCR) (TCR=Tax collection /Accrued tax) for different taxes.

	Dependent Var: (TCR) for Personal Income tax with tax returns	Dependent var: (TCR) for total tax	Dependent var: (TCR) for Corporate tax	Dependent var: (TCR) for Personal Income tax
	Coef. (t-stat.)	Coef. (t-stat.)	Coef. (t-stat.)	Coef. (t-stat.)
Constant	-0.977 (-0.753)	1.532* (1.756)	-0.988* (-1.245)	-0.135 (-0.782)
Ln(RVR2011)	-0.102*** (-3.599)	-0.062* (-1.834)	-0.057*** (-2.733)	-0.002 (-0.530)
Ln(ATCRCIS)	1.125*** (3.972)	0.623*** (3.132)	1.083*** (5.947)	1.018*** (26.344)
Ln(Trade)	-0.034** (-2.278)	-0.007 (-0.488)	0.056*** (4.146)	0.000 (-0.197)
Marmara	-0.048 (-0.360)	0.108 (1.442)	0.126* (1.743)	-0.024* (-1.918)
Aegean	-0.032 (-0.251)	0.068 (1.049)	0.189** (2.562)	-0.038*** (-3.325)
East Anatolia	-0.005 (-0.037)	0.163* (1.718)	0.212** (2.568)	-0.004 (-0.318)
Mediterrian	0.065 (0.513)	0.124* (1.828)	0.123 (1.548)	-0.014 (-1.388)
Central Anatolia	0.056 (0.456)	0.106 (1.429)	0.202*** (3.024)	-0.006 (-0.577)
Black Sea	0.014 (0.110)	0.117* (1.783)	0.170** (2.332)	-0.021* (-1.918)
No. Obs.	77	80	77	80
Adj-R ²	0.30	0.24	0.52	0.92
F-stat. (Prob.)	4.56 (0.00)	3.79 (0.00)	10.25(0.00)	99.88(0.00)

4. Conclusion

This paper empirically investigates the relationship between tax compliance and aggregate political attitude of cities in Turkey. As can be observed from the regression results, cities with relatively higher votes shares of governing right wing party, have smaller tax compliance. This is a significant finding that confirm the findings of Akdede (2016). A wald test is conducted to test the equality of coefficients of relative vote ratios over the years. The hypothesis is rejected. That is, the effect of RVR is getting bigger from 2012 to 2015. In another words, cities which have high RVR in 2011 election have smaller tax compliance rate over the years. The effect of RVR is getting bigger.

Key Words: Tax caomliance, tax revenue effort, political parties, Turkish cities

JEL Codes: H1

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Economic Freedom and Income Inequality, Empirical Evidence from OECD Countries

Yasin Acar¹

1. Introduction

Income inequality has been a consequential issue in the sense of its effect on socio-economic variables. Many researchers have endeavoured to uncover how income inequality links to real economic life. In this paper I study the relationship between income inequality and economic freedom. The impacts of economic freedom on income inequality are threefold. First, it generates opportunities for the low-income people by creating equal access to property rights which are essential for the generation of capital for everyone. Second economic freedom affects income distribution by stimulating economic growth. Lastly, economic freedom limits redistribution from the rich to the poor. A regressive tax system is generally assumed to increase income inequality, whereas a progressive tax system is assumed to reduce it (Apergis et al., 2014).

To reveal the relation between these concepts, I regress income inequality on economic freedom, the change in economic freedom between 1980 and 2015 and some economic variables for OECD countries.

2. Income Inequality and Economic Freedom

Economic theory indicates that economic freedom affects incentives, productive effort, and the effectiveness of resource use. Indeed, since the time of Adam Smith, economists and economic historians have argued that the freedom to choose and supply resources, competition in business, trade with others and secure property rights are central ingredients for economic progress (North and Thomas, 1973).

Economic freedom is vital for individual autonomy, concerned chiefly with the freedom of choice enjoyed by individuals in acquiring and using economic goods and resources. The underlying assumption of those who favor economic freedom is that individuals know their needs and desires best and that a self-directed life, guided by one's own philosophies and priorities rather than those of a government or technocratic elite, is the foundation of a fulfilling existence. Independence and self-respect flow from the ability and responsibility to take care of oneself and one's family and are invaluable contributors to human dignity and equality.

Income inequality is typically viewed as different people or households having different degrees of living standards. Thus, inequality is concerned with the relative position of different individuals (or households) within a distribution. It does matter since its distribution affects the wellbeing of its citizens. With lower inequality, those people at the bottom of the distribution

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are relatively better off, for each level of mean income in a country. Some think that a reasonably egalitarian distribution of income is a very worthwhile societal goal, while others indicate that achieving an equal distribution can impede incentives for acquiring higher living standards on average. Debate on the impacts of inequality and redistribution on economic performance is still ongoing.

3. Brief Literature Review

Although there is a substantial literature examining the relationship between economic freedom and the growth rate of income, there are only a few studies related to the impact of economic freedom on the distribution of income. (Berggren, 1999) finds a positive relationship between the level of economic freedom and income inequality. (Scully, 2002) finds that higher levels of economic freedom are linked to lower levels of income inequality.

(Carter, 2007) reports estimates for a fixed-effects model of country-level Gini coefficients as a function of economic freedom along with relevant control variables. He finds a positive relation between economic freedom and income inequality.

In a study for the US, it is found that changes in economic freedom are associated with higher income and higher rates of income growth, and reductions in relative income inequality are identical to the results of Berggren. However they do not support for his result that the level of economic freedom is, contrarily, negatively related to income inequality (Ashby and Sobel, 2008).

Income inequality and economic inequality are generally perceived by the public as if they refer to the same concept in an economy. According to the distinguished philosopher (Frankfurt, 1987), economic egalitarianism is defined as “the doctrine that there should be no inequalities in the distribution of money”.

3. Data and Methodology

To measure income inequality, I use Gini coefficients drawn from World Income Inequality Database, with version 3.4 (WIID3.4) released in 2017. World Income Inequality Database (WIID), collects and stores information on income inequality for developed, developing, and transition countries. WIID provides the most comprehensive set of income inequality statistics available. Economic freedom of the world (EFW) index will be used to measure economic freedom.

Considering the control variables, the regression model can be constructed as follows;

$$\begin{aligned} \text{Economic Inequality} &= \beta_1 + \beta_2 \text{Economicfreedom} \\ &+ \beta_3 (\text{Economicfreedom} - \text{Economicfreedom}_{-1}) + \beta_4 X + \epsilon \end{aligned}$$

where X represents control variables such as per capita income, political rights, years of education.

4. Conclusion

Increased economic freedom can reduce income inequality by widening income-earning opportunities, and it can lower equality by reducing income redistribution toward the poor.

The estimated relationship between economic freedom and income inequality is U-shaped and highly significant. The effects of control variables are also discussed. Based on the regression results, it is seen that economic freedom is a key determinant of income inequality meaning that countries with higher economic freedom have lesser income inequality. Hence governments could reach more income equality by raising economic freedom standards in the country.

Key Words: Income inequality, economic freedom, Panel data, Gini coefficient

JEL Codes: D63, H11

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Taxation of Wage Incomes in terms of Tax Justice in Turkey

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1. Introduction

Tax justice is a concept that has been debated for many years and its boundaries cannot be precisely defined in the public finance literature. Tax justice can vary according to time, place and country structure. The essence of tax justice is the same taxation of taxpayers in the same fiscal situation and the taxation of taxpayers in different financial situations differently. There is a consensus in the public finance literature that the income tax is the fairest tax due to the subjective nature, the progressive tax and minimum subsistence allowance. However, when it comes to practice, it is seen that some problems arise from the point of view of tax justice because income elements subject to different taxation procedures. Determination of a single procedure for all taxpayer groups is particularly difficult. Unable to determine a single procedure causes unfair taxation procedures for some wage earners during the taxation process.

The main goal of our work is to make suggestions for eliminating the negative aspects of the existing practices for the establishment of the "justice principle on taxation" in the taxation of wage incomes. For this purpose, some issues such as the determination of tax base, the taxation procedure and the progressive tax are the focus of the study.

2. Taxation of Wage Incomes

Economically, wage is a surplus of labor, which is the factor of production, and it may be in cash or in real (Tosuner & Arıkan, 2017: 99). In terms of tax law, the definition of wage is made in Article 61 of Income Tax Law. According to this, wages are the benefits represented by money, provided by the money and the remunerations given to the employees who are depended on the employer and a certain workplace. The employee is dependent on the employer and depends on a certain workplace and the wage is the fee to pay for the service (Şenyüz et. al., 2015: 69-70).

Wage incomes are taxed in two ways as "real wages" and "other wages". Real wages are generally taxed with withholding procedure, but it is also possible for some taxpayers to declare their wage income by annual declaration. Other wages are taxed lump-sum.

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As stated in Article 73 of Constitution, the principle of financial power applies to taxation. The gross income does not represent the financial power, so the expenditures related to the gross income should be reduced and the net income should be reached (Başaran Yavaşlar, 2012: 7). As a matter of fact, it is necessary to reduction of the expenditures considered as four items in Article 63/1 of Income Tax Law from the gross income for reaching a net income in real wages. In addition, there are some reductions according to degree of disability in Article 31 of the same law. These reductions must be deducted from the gross wage by the monthly amounts. However, these reductions do not fully cover the expenses incurred in obtaining income (Öncel et. al., 2012: 290). Other wage earners are determined as five items in Article 64/1 of the Income Tax Law. According to this, employees working with the taxpayers subjected to basic procedure taxation, employees working in private constructions, employees working with real estate capital owners, and those who are included by the Ministry of Finance are evaluated as other wage earners. Their net wages are 25 % of the annual gross minimum wage. The annual declaration is not given for other wages and if the declaration is given due to the other incomes, these are not included in the declaration.

3. Taxation of Wage Incomes in Terms of Tax Justice

While the taxation based on the declaration is based on taxation in the Turkish income tax, the withholding procedure is preferred in the taxation of the incomes (Başaran Yavaşlar, 2012: 10). The withholding procedure is the final taxation in the taxation of wage incomes (Öncel et. al., 2012: 292). However, in some cases (Article 95, 86/1-b), the wage incomes must be declared by declaration.

The determination of different taxation procedures in the taxation of wage incomes causes some problems in terms of tax justice. First, wage earners taxed through withholding procedure pay the tax on income not yet passed on to their holders, unlike wage earners paid by the annual declaration. This means that wage earners who are subjected to withholding tax are interfered with property rights earlier than taxpayers who are subjected to the declaration (Başaran Yavaşlar, 2012: 11). However, due to some legal regulations on the taxation of wage incomes, it is not possible to equally tax those who are in the same fiscal situation and those that are in different financial situations differently (Karakoç, 2013: 1285-1286, Budak, 2010: 66). For example, while 15 % of the payments made to athletes in the top leagues are subjected to withholding, the minimum wage is subjected to progressive tax. However, those who declare their income with the annual declaration benefit from the reductions in Article 89 of the Income Tax Law, those who are taxed with the withholding tax can not benefit from some reductions. This practice is contrary to tax justice. Wage earners can earn wages more than one employers. If the total of the wages from the first employer to the next employer does not exceed the amount in the second income quintile of the Article 103 of the Income Tax Law , the retained tax is final for these incomes (Article 86/1-b). In case of exceeding the legal limit, the whole must be declared. If the amount of the wage received from more than one employer exceeds the legal limit and declares, the taxes retained within the year will

be deducted from the calculated tax. But if the wage is below the legal limit, the tax on each employee's remuneration will be final. The problem in terms of tax justice in this case is that the progressive tax tariff is not fully processed. Because, in case of earn income below the legal limit from the primary employer, the taxation will be made according to the withholding procedure, so progressive tax will not be fully implemented. The different practices to be carried out at the legal level among the taxpayers should be done considering the financial power principle. For example, while the janitor working in the apartments are exempt from the income tax, taxation of the wages of the janitor working in the office building is contrary to the tax justice because of the financial power principle (Şenyüz, 2014: 88). Besides, taxpayers in the other wage also have practices that are contrary to tax justice. For example, although the wage earned by a person working as a driver and taxed in basic procedure and the wage earned by a person working with barber are different, both of them are taxed on the basis determined as the lump sum in the same amount. Therefore, those who are in different positions in terms of their financial strength pay the same amount of tax. This situation is contrary to the both Constitution and principle of tax justice. It is also contrary to the tax justice that only the beneficiaries of minimum subsistence allowance are taxed in the real way.

4. Conclusion

Although the general acceptance of income tax is fairer than the other tax types in the public finance literature, the application differences arising from the taxpayer groups are criticized in the taxation of wage income. The wage earners are the taxpayers who are most wronged in terms of tax justice. The leading motives of this are multiplicity of taxpayers and difficulty of determining a single method.

In the taxation of wage income, the principle of justice, financial power principle, generality principle and fair and principle of balanced distribution of tax burden must be taken into consideration.

As a justification for the justice principle, the different taxation procedures applied to those who are in the same situation in the taxation of wage income should be abolished, the scope of the withholding tax should be narrowed, the differences between taxpayer groups about reaching the net income should be eliminated, and the arrangements for reducing the tax burden on wage earners should be increased.

Key Words: Tax Justice, Wage Income, Taxation, Withholding Procedure

JEL Codes: H24, K34, K40

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Value Added Tax Carousel Fraud in Carbon Trading

Tuğçe Akdemir Altunbaşak¹

1. Introduction

Value added tax (VAT) has an important role in the member states of the European Union (EU) for taxation in international trade. As VAT leads to fragmentation or division in the chain of economic transactions from producer to consumer, it is susceptible to fraud, especially **carousel fraud**². Fraudsters' persistence in finding ways around the precautions taken has led to the invention of **carbon carousel fraud**, enabled by the existence of uninspected markets of carbon credits with high trade volume. In this context, this study first describes the concept of carbon trade and draws conclusions and suggests precautions and initiatives that may help suppress carousel VAT fraud.

2. Formation and Process of Carbon Trading

"**Carbon trading**" refers to the system where carbon emission rights are turned into a commercial good that can be bought and sold at free-market prices, forming a "**carbon market**" that aims to reduce carbon emissions through quotas. The right to release a predetermined quantity of carbon, called "emission rights/carbon credits," can be marketed relatively easily, and the regulation of this right, which is used as a means of reducing and restricting greenhouse gases, is accepted as a market-based mechanism.

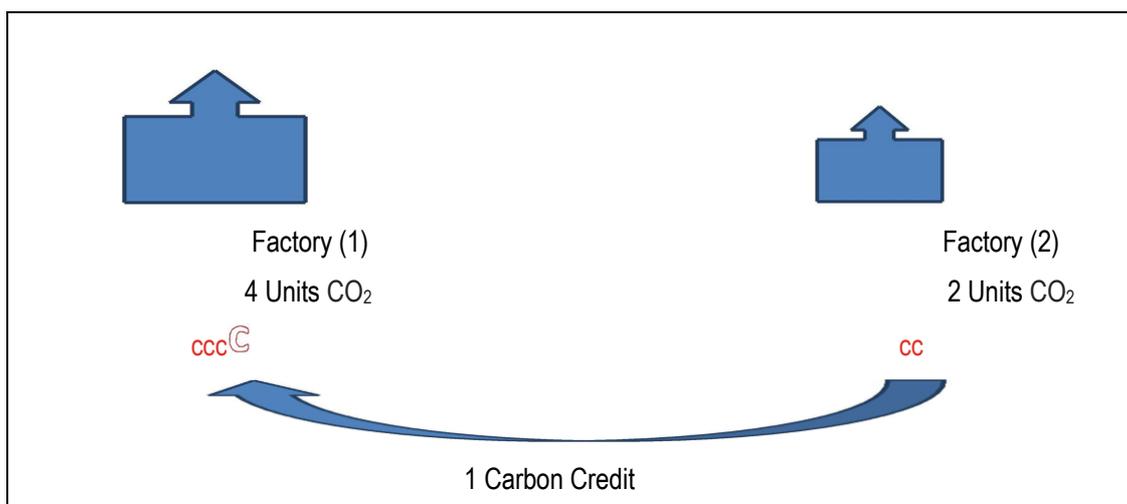
3. Carbon Trading in the Practices of the European Union

The European Union Emission Trading System (EU ETS), effective from January 1, 2005, is based on the "cap and trade" principle where a total limit of greenhouse gas emissions is determined for institutions. Legislative recommendations with the aim of reforming the EU ETS and revising emission caps to meet emission goals are being generated.

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² **Carousel fraud activities** occurring as a result of not transferring the necessary amounts to the tax office after transacting the VAT of the sales made leads to the loss of significant quantities of tax income in the EU system.

Figure 1. Example Showing How Carbon Trading Works



Source: Interpol, 2013:5.

4. Carbon Trading in the Practices of Turkey

While Turkey is not currently utilizing the flexibility mechanisms that regulate carbon trade according to the Kyoto Protocol³, since 2005, it has been developing and implementing measures toward a **voluntary carbon market** based on environmental and social responsibility principles that operate independently of these mechanisms.

While the precursors and transactions of the voluntary carbon market are similar to those of the harmonization market, the lack of binding goals and international support for these goals means that the voluntary market is subject to less inspection and transparency in comparison with the harmonization market. Therefore, it is important at this point to state that the potentially illegal activities such as fraudulent manipulations or misleading claims of measurements that are seen in the harmonization market are also possible, if not already occurring, in the voluntary market (Interpol, 2013: 10-11).

5. Activities Related to Crime in Carbon Trading

5.1. Value Added Tax in the Carbon Credit Market

When the EU ETS was created, emission credit transfers were made subject to VAT, as emission allowances have market value and thus can be traded between buyers (commercial customers) and sellers either on a spot or a forward basis. Accordingly, while emission limit transfers within one member state are subject to VAT, cross-

³ Turkey is not obligated to reduce greenhouse gas emissions in the first (2008–2012) and second (2013–2020) periods of the Kyoto Protocol, which was initiated on March 21, 1994, and put into effect on February 16, 2005.

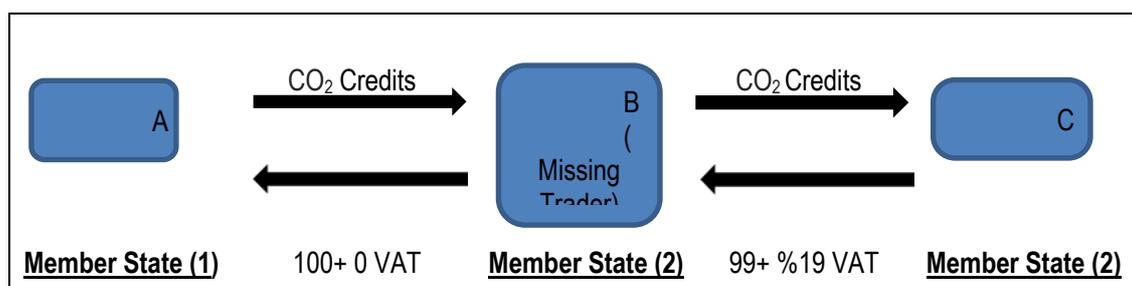
border transfers will be subject to VAT in the customer's member state, and the customer will pay the VAT through the **reverse charge mechanism**.⁴

5.2. Value Added Tax Carousel Fraud in the Carbon Credit Market

Carbon trade in the EU has been affected by a specific type of tax fraud concerned with VAT theft. The easy and fast trade of carbon credits due to their high volume and value has made the carbon market sensitive to carbon carousel fraud (Foster, 2009).

Carousel fraud refers to the exportation of goods from one jurisdiction to another without VAT payment, followed by the sale of these goods in the same country with VAT added to the sales price. The goods and VAT can later be sold by a series of intermediary cross-border companies (buffers). With every transaction, it becomes more difficult to keep track of who actually owes the VAT, and eventually, the actual exporter disappears without paying the taxes that are still due (Tumpel, 2010:153).

Figure 2. VAT Carousel Fraud in the Carbon Credit Market



Source: Ainsworth, 2009: 736.

Initially, each member state tried to protect its own internal carbon market. Later, after making the reverse charge mechanism optional and temporary, member states decided that any person to whom a transaction determined in the Directive⁵ was made by the person responsible for the VAT can be held liable for the VAT for at least two years until December 31, 2018. In sum, while the commercial customer or the buyer is actually liable to pay the VAT for a transaction subject to the implemented reverse charge mechanism, the supplier or service provider is responsible to report this transaction to the tax office (International VAT Association, 2007).

⁴ **The reverse charge mechanism** allows concentration of the liability to report VAT income and collected tax in a part of the chain of economic transactions (Lamensch, 2012: 4).

⁵ Council Directive 2010/23/EU of March 16, 2010 Amending Directive 2006/112/EC on the Common System of Value Added Tax, as Regards an Optional and Temporary Application of the Reverse Charge Mechanism in Relation to Supplies of Certain Services Susceptible to Fraud, OJ L72, 20.03.2010.

4. Conclusion

While the reverse charge system may prevent carbon carousel fraud, failure to implement it may allow the missing trader to continue operating or to apply the same methods to other goods traded in the same way, such as natural gas or electricity. Additionally, we must consider the potential interruption of the VAT chain by the reverse charge mechanism. Moreover, considering the **Paris Climate Agreement**,⁶ the principle of taxation in the destination country or the country of origin must be discussed with regard to developing and strengthening economic relations in international trade. In Turkey, a transition to the origin model, which is expected to create positive outcomes in Turkey's EU accession and support the single market principle with full harmonization of VAT, will restore the tax harmonization symmetry disrupted by the destination model, and the VAT chain will not be interrupted.

Key Words: Carbon Trading, Value Added Tax in the Taxation of Carbon Trading, Carousel Fraud-Missing Trader Intra Community Fraud, Carbon Carousels.

JEL Codes: K34,H26,F18.

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⁶ To implement low-carbon sustainable economies in the whole world more comprehensively, 197 countries ratified that climate change has local, national, regional, and especially global importance, and the agreement was put into action on November 4, 2016.

The Practice of Pig Tax in Ottoman Empire

Şahin Yeşilyurt¹

1. Introduction

Taxes, which constitute the main subject of fiscal systems, have played an vital role in establishing relations between states and citizens in the past and nowadays. Belief systems that are widespread in society have been seen as an important factor in shaping the taxes that play such a role between the individual and the state.

When we consider these evaluations in the Ottoman Public Finance system, it is possible to see the effects of Islamic religion on taxation. In particular, the taxation of Muslim taxpayers and non-Muslim taxpayers through different taxes supports this statement. In addition, the Ottoman Empire levied taxation through the tax subjects forbidden for Muslims. The basic example of this is the taxation on pigs.

In this framework, the tax on pigs in the Ottoman Empire will be evaluated within the frame of the Ottoman Archives. The fact that the tax on pigs has not been examined has made this study as an important part of the literature.

2. Introduction

Many factors play a role in the creation of the tax system which is continuing to maintain its presence in daily life during every period of history and is putting significant effects on society. It is possible to sort of these factors as the geopolitical location, vegetation, underground and aboveground resources, socio-economic status of the country and religious or belief system which commonly found in the country.

Especially in the past period, religious or belief systems had an important role on determining the the tax system of states. Through religious or belief systems, it had been promoted to determining the taxpayers, tax issues and exception-exemption of taxes, to the collecting of taxes, and to defining the sanctions to taxpayers who did not fulfill the tax obligation. Nominately, in this belief system, the tax issues which has strictly prohibited and has deemed appropriate the nutrition, cultivation, consumption and trade by their supporters, also, brought into as a tax issue and aimed to collect taxes on them.

Such examples of this practice can be seen in the Ottoman Empire. In the Ottoman Empire managed within the framework of the rules of Islam, tax collected for many years on pig which was acceptable forbidden of consumption and trade of it by Muslims according to religious rules. However, it should be emphasized here that this

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is the fact that the taxpayer is non-Muslims and Muslims do not address in this type of taxation.

Considering the studies on the taxation applied in the Ottoman Empire, the fact that there is no work on the pig taxation makes it important to this study. In other words, although there is a significant number of studies on the Ottoman Empire's fiscal system (Genç, 2013; Genç & Özvar, 2006; Tabakoğlu, 2016; Çakır, 2012; Özbek, 2016; Özbek, 2015), the fact that the pig tax is not handled, in particular, is the main motivation behind this work.

In this context, a comprehensive evaluation will be made of the taxes taken on pigs in the Ottoman Empire during the XIX century in the light of the archives in the Ottoman Archives of the Prime Ministry of the Republic of Turkey. These evaluations will be carried out through examples reflected in archives. Thus, the relationship between belief systems and taxation that stand out in the shaping of financial systems will be mentioned and the practices of the pig tax applied in the Ottoman Empire ruled under the Islamic religious rules will be examined.

As a result of the study, it is hoped that some examples will be found in the archives like that the taxpayers who were not taxed on the amount of pigs that survived the life of non-Muslims, the pigs under certain age or certain regions were exempted from this tax, and the taxpayers were either resorting to some tricks to pay less tax or never to pay (A.MKT.UM. 499/73; A.MKT.NZD. 331/9, 330/82, 261/47, 380/52; A.MKT.MVL. 145/5, 114/47; A.MKT.MHM. 323/16, 235/15, 174/1).

3. Conclusion

The effect and importance of religious belief systems on the system of public finance especially on taxation system is an undeniable fact. In fact, this effect was felt more deeply in the past periods. In order to follow the example of this in the Ottoman Empire, this study was taken up. In the study, it was revealed that non-Muslims were permitted to feed, consume, and trade the pigs in the Ottoman Empire, although consumption, nourishment, trade of pigs was accepted as haram for Muslims in Islamic religion and for this purpose it has been seen that tax collection from this source is targeted.

As a consequence, in the study, the pig tax applications applied in the Ottoman Empire within the context of religion and fiscal system will be evaluated in the light of archives and the causes and examples of the taxation taken on a subject that is forbidden for Muslims according to Islamic religion will be examined.

Key Words: Public Finance History, Ottoman Empire, Pig Tax

JEL Codes: N15, H2, Z12

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The Rebirth of the Basic Income Idea from the 16th Century to the 21st Century

Fatma Yapıcı¹

Şahin Karabulut²

1. Introduction

In the capitalist production model in which the capital is regarded as the main production factor, while capital-owning class is getting richer, deprived of production means class has a low share in the income distribution resulting from the production activity. This situation causes the small part of the economy to become richer and much of the remaining part to become poorer.

In this study, basic income method, which is a poverty reduction method, will be explained. Firstly, the historical process of the basic income will be explained. After the clarifying of the meaning of the basic income method, this method will be compared with the negative income tax proposition. In the last part, state examples of basic income application will be given and study will be terminated.

2. Historical Process of the Basic Income Idea

Juan Vives at first has developed idea towards to a basic income comprehensively. In 1526, Vives has exposed a detailed scheme for a basic income in his work titled "On Assistance to the Poor". After Vives, Thomas Paine has developed to the basic income concept. According Paine, a basic income was considered as a basic duty not limited to those who were poor or not insured (Heeskens, 2005).

Universal basic income is defined as payments of states at fixed level and at certain intervals to each adult member of community. Universal basic income should be constantly paid regardless of whether the members of the society are rich or poor, to live alone or collectively, and they wish to work or not. In most types of universal income, a fixed income payment is given not only to citizens but also to all permanent residents (Van Parijs, 2004: 12).

Dimensions of basic income: (De Wispelaere & Stirton, 2004: 266-271).

- Universality
- Individuality

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- Unconditionality
- Stability
- Adequacy

Basic income has begun to be discussed more broadly in the 21st century. Socialist thinkers evaluate basic income in the sense of developing and consolidating citizenship. Liberals are also concerned that basic income will cause disruptions in the functioning of the market and reduce unemployment (Topateş, 2012: 143).

3. Negative Income Tax –Basic Income Method

Negative income tax and basic income to combat with poverty are frequently mentioned in the literature. Though those proposals mentioned above could be evaluated as same, the basic income and the negative income tax have significant differences in terms of their basic qualities such as to whom payments will be made. The two propositions are used in some conditions in the same sense, but they have certain differences in terms such as the application, and the circumstances they are carrying. When the differences are considered, the first point is the difference in the historical process of the basic income proposal and the negative income tax proposal. In 1942, J.R. Williams proposed the incorporation of the negative income tax and social security system in the UK. Besides, in 1946 G. Stigler suggested a minimum income tax which would be applied instead of applying a minimum wage. According Stigler's minimum income tax proposal requires it is necessary to pay people who are below a certain level of income instead of applying the minimum wage. Almost 15 years later of Stigler's proposal, a negative income tax proposal was developed by M. Friedman as a means of modern welfare policy in America. However, the negative income tax, which has been extensively propagated by Friedman and contemporary economists in the United States and other countries where the proposal has been made, has not received much support from politics and society (Karabulut & Yapıcı, 2015: 184).

When the negative income tax was first introduced, it had a history of about 400 years of basic income thought. The basic income proposition figured out by Vives in "On Assistance to the Poor" and Vives advocated a minimum income payment proposal for the entire life of the city's residents. In this respect, it can be understood that the bases of the basic income application are based on the older studies than the negative income tax.

4. Country Experiences for Basic Income Application

Basic income is implemented as a kind of minimum guaranteed income has in European countries in three different ways: firstly the basic income is paid to the individual, not the household, secondly it is paid regardless of whether he/she has owned to other sources of income and the third is the basic income paid with no work requirement (Hanel, 2008: 5).

4.1. Basic Income Practice of Finland: A Pilot Experiment

The agenda is being raised by the support of political parties and civil society in various countries and regions for the basic income that is being piloted in Finland in 2017. Alaska, India and Canada are leading regions where the basic income has been implemented at the local level. Also, there is current initiative to gain acceptance for basic income method at the national level in Glasgow.

Table 1: Budget Effect of Full Basic Income in Finland (Million Euros)

	Current legislation	Basic income 1,000 euros/month	Basic income 1,500 euros/month
Flat tax rate, %		60	70
Basic income expenditure		35016	52524
Disposable income	133251	113.168	112948
Unemployment expenditure	3928	801	273
Sickness allowance	1402	574	308
Child home care allowance	419	722	72
Pensions paid by Kela	2202	202	2202
Student allowance	531	7	7
Students' housing supplement	268	268	268
Pensioners' housing allowance	472	465	460
General housing allowance	603	263	92
Social assistance	586	48	36
Child benefits and child maintenance allowance	1665	1665	1665
Disability benefits	345	345	345
Current transfers, total	12419	6709	5728

Source: Kela, 2016: 23.

5. Conclusion

The basic income method, which is a typical social transfer expenditure in terms of its characteristics, is undoubtedly a policy support instrument that can be used directly to increase social welfare. However, basic income method can be considered as a costly and risky political tool. In this context, the state's transfer spending can be very costly depending on the scope of the program. In this case, the state will need high additional sources.

Undoubtedly, basic income method serves social purposes such as fair income distribution, preventing of social exclusion and increasing of economic welfare, but it is not a sufficient policy measure by itself for governments to achieve these objectives. In this sense, welfare policies of countries should be examined as whole and social benefits. It will provide more accurate evaluation of the subject.

Keywords: Basic Income, Negative Income Tax, Social Politics.

JEL Codes: B22, H24, H53.

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What a Poll Says! What Does a Tax Payer Want? Why Does He/She Evade Tax

İlhami Söyler¹

1. Introduction

Tax related matters are usually viewed in the tax authorities' eyes. In these discussions, measures are thought of existing taxpayers in order to pay more tax and also ones who don't fulfil their liability must be punished and observed much more by tax offices. Taxpayer's ability to pay, level of education, tax ethics, psychological and personal attitude are not taken into consideration. Whereas the tax relation is a bilateral debtor-creditor relationship. In this relation, it does not mean that the debit side are at fault or guilty, on the contrary he/she can be justified. In fact, the debtor also has rights like a creditor. Responsibilities of the taxpayer are constructed in tax legislation but their rights are clearly not.

A survey which was carried out on 10 as per province, totally 810 taxpayers throughout the country, tax matters were tried to be viewed from their window and the results of the survey are compared with the basic concepts and institutions of tax theory such as tax culture, tax consciousness, tax ethics and tax psychology.

2. Complaints About Turkish Taxation System and Challenges

If the tax matters are evaluated from its point of view, it is important to determine taxpayers how to be influenced by the taxation system.

When asked half of the taxpayers complain about high tax rates, one-third of them; about many kinds of tax.

It is known that if you keep raising tax rates after the optimum level it leads to reduce tax revenue as İbni Haldun and Laffer says. Also known that high tax rates affect voluntarily negatively.

In order to avoid taxpayers' complaints, instead of expensive services and paper costs of which are much but revenues are little, Tax of Financial Transaction can be thought of putting into practice.

At the point of how they are affected by the tax system, 45% of the taxpayers says that they work more in order to compensate for the tax, and 27% said that they are heading to tax-free or areas with little tax. These ratios indicate that the effect of income is the foreground of decision / declaration effects.

3. Complaints and Evaluation Related to Tax Administration

Matters which are complained about tax administration by the taxpayer on the poll, 42% of them complain about high tax cost, 29% of them; tax administration being not effective, 24% of them; tax audit being insufficiency.

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Reduction of tax costs can be achieved by reducing the tax office, bureaucracy and paperwork by simplifying the keeping books and registering system, decreasing the financial consultancy and accountancy services, increasing efficiency of the tax administrations, eliminating the vacancy of buildings, tools, equipment and personnel, It is emphasized that employee rights should be improved in order to motivate employees and that tax amnesties are a weakness of the tax administration. It has been suggested to abandon the punishment mentality on insufficiency of tax audit, to emphasize education function of tax audit and increased in quantity and quality of tax audit.

4. Evaluations Taxpayer's Thoughts in Reference to Tax

In order to determine the reactions of the taxpayers to taxation, it was inquired whether they informed their profits exactly, 41% of the taxpayers fully informed the income by their own accord, 25% of the taxpayers unintentionally fully declared and the remaining 34% did not declare correct income amount.

The proportion of those who do not exactly declare their revenues is consistent with the size of the unrecorded economy in our country. The unrecorded economy mostly comprise of services and goods trade without invoice. At this point it is mandatory to take measures such as seller of real estate and second hand car and self-check of self-employed person.

When ones who dont declare their profits exactly were asked why they did not pay this; %34 of them said that they did not take invoice or transcript for all tranactions, %31 of them said that many taxpayer evaded tax, %25 of them said that the taxes that they paid were properly not used or spent.

According to these reasons, it is revealed that some measures should be taken within the framework of tax ethics, tax consciousness, voluntary, tax psychology and sociology, depending on the tax culture in our country. On the other hand, government should pay attention to properly spend the tax that are collected from taxpayer and not to waste them and it also matters to establish a fiscal transparency how to use up the taxes.

5. Conclusion

Compalints, preferences and disposition should be taken into consideration by looking from taxpayers's aspect in this survey and below article has been recommended;

a) Taxpayers are highly complaining about the tax rate and it is suggested to reduce rates in order to prevent this situation and the voluntary of the taxpayer and to eliminate some low cost and high cost tax and fees and replace them with a financial transaction tax.

b) Considering the effects on the behavior of the tax system, it has been understood that nearly half of the taxpayers work much more in order to compensate the taxes which were paid by the taxpayers and the income effect of the taxpayers is very much. It has been also understood that more than one quarter of the taxpayers are directed towards tax-free and less taxes area to be paid, and it is proposed that the decision / declaration effect of the tax also arises and that the exemption should be narrowed and the voluntary should be increased.

c) Regarding the complaints to the tax administration, it was found that nearly one-half of the taxpayers were exposed to high tax costs, nearly one-third of them were ineffective tax management, and quarter of them was inadequate tax audit. In order to prevent complaints, it has been proposed to reduce the bureaucratic formalities, to make the financial consultancy

services cheap, to eliminate the personnel, buildings, tools and equipment needs of the tax offices, to abandon the continuing tax amnesty, to emphasize the educational aspect of the tax audit and to increase the quantity and quality of tax inspectors.

d) 2 of 5 the taxpayers fully informed the income by their own accord, 1 of 4 the taxpayers unintentionally fully declared and the remaining 1 of 3 did not declared correct income amount. It is thought that it would be beneficial to apply a therapy based on tax consciousness and tax ethics to these taxpayers.

e) Taxpayer who dont want to pay tax said that %34 of taxpayers who do not fully declare their income can not receive documents/invoices for their purchases and expenses, 31% of them have evaded taxes because many taxpayers have done it and 25% of them the taxes that they paid have not been spent truly. The development of regional, sectoral and taxpayer-based autocontrol mechanisms at the point of removing these reasons from the grounds, especially the employment of specialists in the field of tax psychology, in order to increase the voluntary of the real estate and second hand car purchases and self-employed persons, It can be advised to establish a transparent public financial management system.

Keywords: Taxpayer, tax ethic, voluntary, tax psychology

JEL Codes: H21

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Tourism Incentives and Taxation

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Mirza Can HAKLI³

1. Introduction

Along with globalization, tourism has become very important all around the world. People have started to travel to different cities and different countries with different purposes as technology improves; and this has created a set of effects on national economies. The most important of these effects is the tendency to growth/development in national economies as a result of the foreign exchange brought in to country through tourism. The purpose of this study is to underline the economic impact of tourism and explain the incentives provided to tourism sector with taxation in tourism through the case of Turkey.

2. The Importance of Tourism on the Economy

Besides being the fastest and biggest growing sector in the world for the last 60 years, tourism is a sector with considerably high contributions to socioeconomic growth through destinations and investments. It is calculated that in 2008, the share of tourism in world economy is 1.1 trillion dollars, its contribution to the world GNP is 6.3 trillion dollars; and 10.7% of the world economy and 7.8% of the employment in world is provided with tourism. It is still the 4th biggest major income resource after oil, chemical and automobile industries that brings export revenues, and at the same time continues to provide employment and create opportunities for the most of developing countries.

Tourism has an increasing importance for all countries in the world for the last years. Tourism has become even a more important matter with rapid population growth. With rapid population growth, people started to migrate from rural to urban places, and they started to have more information about the world since technology develops with migration. Especially after the improvements of information networks, tourism has also become integrated to the world. Besides being an important sector for the national economy, tourism is a critical element in the current account balance for the international balance of payments. The development of tourism also directs the development of other sectors (agriculture, industry, commerce, service) of the country.

Tourism significantly affects national economies. Taxation of tourism have been a problematic issue due to its impact on development, employment, investment and balance of payments. While taxation of tourism is considered as an important resource for income, it is also seen as an impediment for tourism revenues. Due to taxes imposed on tourism creating additional costs, tourism will become more expansive and thus, the country may find difficulties in

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attracting foreign tourists. In our country, taxes are rather used to promote tourism. Even though tax incentives reduce tax revenues, they are important tools for attracting investment and tourists into the country. However, tourism is not developed through only taxation and incentives.

2.1. The Impact of Tourism on Balance of Payments

In this study, the impact of tourism on economy is explained. Later, statistical information related to its contribution to the balance of payments, as well as the export revenues, import expenses and foreign trade deficit of Turkey between 2001 and 2014, and how much of this deficit is narrowed through tourism revenues.

2.2 The Impact of Tourism on Investment and Development

The impact of tourism on investment and development is examined under another title. In this section, the investment status in the country and its sustainability is analyzed.

2.3 The Impact of Tourism on Employment

The information related to employment in tourism and its impact on other sectors, and its capacity to create employment is examined under this title.

3. The Problem of Taxing Tourism and Tourism Incentives

In this section, discussions about whether tourism should be taxed or not; and the information about tax incentives are provided. It is attempted to evaluate how the sector would be led through tax system and incentives provided, as well as their impact.

4. Conclusion

Tourism significantly affects national economies. Taxation of tourism have been a problematic issue due to its impact on development, employment, investment and balance of payments. While taxation of tourism is considered as an important resource for income, it is also seen as an impediment for tourism revenues. Due to taxes imposed on tourism creating additional costs, tourism will become more expensive and thus, the country may find difficulties in attracting foreign tourists. In our country, taxes are rather used to promote tourism. Even though tax incentives reduce tax revenues, they are important tools for attracting investment and tourists into the country. However, tourism is not developed through only taxation and incentives. In addition to incentives, advertisements about the country should not be ignored. Another critical subject to emphasize is the training of the employees working in the tourism sector, the level of satisfaction for the tourists with the service quality, and having no concerns with security. In brief, the government should support tourism through its taxation policies and create adequate incentives. Besides, the private sector should make use of these incentives in the interests of the country. The government should increase its supervision on this matter and impose sanctions on establishments that do not make use of incentives in the interest of the country. In Tourism Promotion Law no. 2634, there are articles about the supervision, abrogation of certification, and penalties. The purpose of these articles is to make incentives used in line with their objective and on time.

Key words: Tax, Tourism, Incentives

JEL Code: E62, H2, H54

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An Analysis of Minimum Wage in Turkey from the Aspect of Optimal Taxation Criteria

Ufuk SELEN¹

1. Introduction

The purpose of this study is to analyse the Turkish tax system in general, with a particular focus on the taxation of wage share from the perspective of optimal taxation approaches. In line with this objective, the following hypothesis will be defended: "Pareto efficiency cannot be achieved in the taxation of minimum wage in Turkey". This study employs the deductive method alongside with an evaluation of literature and practice. The taxation approach of welfare economics develops within the context of optimal tax theory. Optimal taxation approach is both responsive to the need for public financing and oriented toward balancing out activity and justice.

2. On Optimal Taxation Approaches

Welfare economics, which aims to enhance social prosperity, has developed along two main lines. Pigovian welfare economics, also known as utilitarian welfare economics, is based on the belief that benefit is measurable. It stresses that an intervention with the initial allocation, based on the principle of diminishing marginal utility, is supposed to be to the disadvantage of high-income groups. Utilitarian welfare economics supports the view that such remodelling of the initial allocation can maximize social prosperity and/or minimize welfare loss.

The new welfare economics approach sets out to recover the concept of welfare from value judgments and moves toward an activity-based definition of the concept. Grounded on Pareto, this approach forms a direct interaction between market efficiency and welfare. The new welfare economics identifies a functional relationship between social prosperity and activity. Within this relationship, social welfare is defined as dependant on economic activity whereas economic activity itself is defined as an independent variable (Albayrak, 2000).

The general conditions of activity for Pareto's welfare economics point at the first essential theorem of welfare economics: "Every balance that generates within the constraints of perfect competition is Pareto efficiency." This means that the conditions of perfect competition are regarded as a guarantee for Pareto efficiency. Therefore, the first essential theorem rejects any non-market element that disrupts the relative price structure. In cases of deviation from perfect competition market conditions, Pareto efficiency is in need of amelioration because these deviations cause a loss of activity, which, in turn, hampers the development of welfare (Varian, 2005). Under such circumstances, interferences aiming to increase welfare will be required. These interferences are defined as Pareto improvement and legitimated under the second essential theorem of welfare economics (Susam, 2016).

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Impairment of relative price structure causes loss of Pareto efficiency. This irregularity brings about changes in production and consumption preferences, whereby an overall loss of activity occurs. As one of the factors that cause such impairment, taxation partakes in the responsibility for loss of Pareto efficiency and this result manifests itself as excess burden of tax. As a compulsory financial tool, tax collection cannot be discontinued. So, the main problematic here revolves around the strategies for minimizing excess burden of tax.

The answer to the above problem is sought after by various studies on optimal taxation theory. The pursuit of optimal taxation, which aims to minimize excess burden of tax, sets out with three main aspects (Sağbaşı and Şen, 2015): 1) Each model study focuses on one of the sub-components of income or expenditure tax with an aim to meet the need for public financing. 2) Each model endeavours to determine the potential taxpayer's level of tax resistance. 3) Each model study aims to foresee whether society will choose activity or justice in terms of different types of tax. The results of the optimal taxation theory developed in this framework are summarized as follows (Mankiw, Weinzierl and Yagan: 2009, Burgess and Stern: 1993):

1. Wages should be taxed on a degressive tariff that is based on the distribution of personal competence.
2. A Flat Tax, With A Universal Lump-Sum Transfer, Could Be Close To Optimal
3. Return on capital should remain non-tax.
4. An optimal reallocation is provided via wage inequality.
5. Tax tables should be based as much on personal attributes as the level of income.
6. Consumption, only finished goods, should be taxed in non-discriminatory manner.

The studies on the optimal taxation of wage share are developed according to the principles that Mirrlees put forward (Mirrlees, 1971).

Mirrlees (1971) points at differentiated income tax by separation of taxes. According to this view, a tariff based on earned income and working hours should be applied on income tax. Within this context, two applications are suggested for usage: a heavy taxation of idleness or decreasing the tax rate as the working hours increase. In fact, an optimum can be achieved through a tariff structure that is personalized for each individual. Differentiation tools that can balance out the hereditary discrepancies amongst individuals and affect labour supply positively need to be included in the tax system so that beneficial results in terms of optimal taxation can be ensured (Mankiw, Weinzierl and Yagan, 2009).

The essential problem with the application of differentiated tariff is determining the marginal tax rate and the tariff structure from the viewpoint of optimal taxation. Mirrlees does not introduce a restriction on tariff structure at this point. Nonetheless, he suggests that tax rate on high-income groups is minimized so, he advocates a degressive tariff structure (Mankiw, Weinzierl and Yagan, 2009). The justification for this choice is explained as follows: In cases where high marginal tax rates are applied, the substitution effect of tax will cause activity loss. Therefore, Mirrlees (1971) emphasizes a tariff structure based on the taxpayer's ability to generate income.

3. An Evaluation of the Taxation of Minimum Wage in Turkey

It has been observed that in Turkey, personal differences count as a factor in the taxation of wage share. Within such framework, minimum living and disability allowances act as practices of personal differentiation. However, these differentiating efforts are directed toward grasping the economic units' solvency and not toward the pursuit of activity that optimal tax theory presupposes. Personal differentiation proposed by optimal taxation theory aims at determining those who are likely to generate higher levels of income and taxing these individuals at the lowest rate possible so that they can be involved in the production process more actively. For this reason, the differentiating factors of wage taxation in Turkey do not meet the expectations of optimal taxation theory.

If we attempt to evaluate wage taxation in Turkey from the perspective of optimal taxation approach, we can see that the current practices do not correspond to the prospects of optimal taxation in two main aspects.

The first aspect consists of the fact that wage income is taxed according to progressive tax system and that the principle of differentiation is employed to the advantage of labour. In order to ensure a change of rate in the fourth bracket of income tax tariff, an exceeding of 70.000 ₺ in the return on capital and 110.000 ₺ in wage share taxation is predicted. So, such an application aims toward taxing wage share on a lower level than return on capital. Yet this approach is unacceptable from the viewpoint of welfare economics, which develops upon the basis of activity.

The second aspect, on the other hand, is the inclusion of practices that can cause substitution effect in the taxation of minimum wage. It has been observed that the practices regarding minimum wage taxation during the period of 2016-2017 created a substitution effect and thereby, diverged from activity-based optimal taxation. That is to say, the practice, which does not permit the drop of minimum wage below a specific amount after taxation, causes the employee to make his choice for idleness instead of labour, bringing about the substitution effect. The excess of burden tax, which increases upon the application of the progressive tariff, generates the following situation: given that the disposable income drops below 1.404,06 ₺ for a single, childless employee, the government covers the difference and thereby provides a minimum wage guarantee. Nonetheless, the fact that the government does not provide supplementary payment for those who earn above 1.404,06 ₺ because they receive overtime pay, decreases the employee's willingness to work and also causes disruption in labour peace. In both of these circumstances, there will be a loss of Pareto efficiency. Moreover, progressive tax system necessitates most employees to be registered on the social security database at the level of minimum wage, as an attempt to decrease financial burden such as tax and as a result, constitutes further distancing from optimal taxation. Concealment of the basis of assessment at this point also affects the fiscal purpose of tax negatively.

As an attempt to alleviate the fiscal drag effect caused by progressive taxation, progression is cut down and minimum wage is increased to a significant extent; thereby causing the emergence of the problem above. In order to remove the substitution effect caused by this practice, the first bracket of the tariff should be determined so that minimum wage is taxed over the lowest possible rate. This rate should be determined by the formula of "gross minimum wage x 12".

4. Conclusion

The pursuit of optimal tax takes shape in a way that can cause the least amount of alteration in the preferences of taxpayers, in line with the principles of neutral taxation. When the tax system in Turkey is regarded through the lens of optimal taxation criteria, we can argue that it aims to provide fairness in taxation from a legal perspective whereas it develops upon a pursuit of activity on the level of politics and practice. Apart from this overall characteristic, it has been observed that certain practices that may cause substitution effect are employed in the taxation of wage income. In order to remove this substitution effect, the first bracket of the tariff should be determined in a way that the lowest possible amount of taxation is ensured on minimum wage.

Keywords: Finance, Optimal Taxation, Welfare Economics, Minimum Wage.

JEL Code: H21, H24, H26, K34

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Where is Turkey in Minimum Wage Among EU Countries?

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Songül Solmaz Macit²

1. Introduction

Since the end of the Second World War, the concept of the welfare state has become popular, especially within the social state principles. The minimum wage has then played a fundamental role in the framework of this understanding, being referred as the lowest limit of earning that an employee can earn to cover the basic needs of him. Due to the poor bargaining power of workers, governments may prefer directly influence the wage levels. Some countries, such as Turkey, prefer to announce a statutory minimum wage without imposing any restrictions. However, some other countries, such as Nordic countries, specify different wage levels for different industries and make some limitations to the working hours. Hence, inequality and poverty concerns force governments to set minimum wages that make them important indicators for the economic situation.

The literature about the minimum wage mostly focuses on the effects of it in the labor market both from the econometric and theoretical point of view. However the studies about minimum wage for Turkey are pretty limited. This study aims to determine the position of Turkey from 2000 to 2015 among United States and EU countries, which have similar minimum wage policy. In order to compare Turkey with other countries in terms of minimum wage, we prefer to apply Purchasing Power Parity (PPP) to minimum wage levels since nominal exchange rate may be misleading. As a robustness check, we also use Cost of Living Index (COLI).

2. Minimum Wage Literature As a Political Tool and Its Economic Impact

Policies, which reduce income inequality and poverty, become the most important ones according to welfare state principles since these principles imply that the well being of the citizens has high priority among other concerns. However, after 1980s arising power of liberal politics causes the minimum wage policies to become controversial. Recently, minimum wage is not considered as a social policy tool but rather an economic or political tool.

As stated before, minimum wage literature is mostly interested in the effects onto formal and informal employment. Meer and West (2013) examine the impact of the minimum wage on the employment level in detail and conclude that minimum wage policies reduce the demand for new labor as it increases the marginal cost of the

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employer. On the other hand, employer spends extra effort to find a good match for the job. This forces job seekers to increase their quality with their performance. Combining these two adverse effects, they show that net effect of minimum wage policy to economic growth is negative. Gökçekuş and Tower (2003) investigates the minimum wage effects on employment and economic efficiency by calculating the demand and supply elasticities. Their results show the minimum wage as a political tool rather than an economic tool since it decreases the economic efficiency and employment.

A comprehensive empirical study of fiscal effects is conducted by K. Bauer et. al.(2009) for Germany. They show the negative effect of minimum wage policy on government revenues and expenditures as well as an adverse effect on income distribution and employment. They divide education levels of individuals into 5 categories, which provide them to see the relationship between the education level and minimum wage. As expected, minimum wage policies are mostly effective in low educated groups with part-time workers. Brennan and Stanford (2014) demonstrate the negative relation between minimum wage increases and employment in Canada. Bazen and Martin (1991) and Chapple (1997) find similar results for France and New Zealand respectively.

The studies about Turkey minimum wage mostly focuses on the historical policy changes and argumentative observations about these changes. Rakıcı and Vural (2011) examine the change in minimum wage in Turkey and its tax burden. Their results show that because of high tax burdens of minimum wage, social welfare aim of minimum wage is not successful in Turkey. Korkmaz (2004) explains the minimum wage practices in Turkey between 1951 and 2003, also its legal structure and its impact on income distribution for social purposes. Using the Kaitz index, Güven et al. (2011) proves that there is no negative effect of minimum wage onto employment since average wage does not exceed minimum wage in Turkey. In addition, Metin (2012) states minimum wage as a political tool by examining poverty, employment and informal economy in Turkey. Çiçek (2013) has examined countries' minimum wage practices and included minimum wage assessments as a policy tool.

3. Place of Turkey's Minimum Wage Practice

The minimum wage levels for US, selected EU countries³ and Turkey from 2000 to 2015 are examined comparatively. Since the exchange rates are different for some of these countries, they are all converted into euros. However converting levels by only using nominal exchange rate may cause misleading results. Hence Purchasing Power Parity is preferred in order to make the minimum wage levels comparable. Among 21 countries, Turkey has the sixth lowest minimum wage level on average between the years 2000 and 2015. Hungary, Bulgaria, Czech Republic, Poland and Romania have lower levels compared to Turkey's minimum wage. However in 2000, minimum wage

³ EU countries, which has a similar minimum wage policy with Turkey, are Belgium, Bulgaria, Czech Republic, Estonia, France, Greece, Hungary, Ireland, Latvia, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania Slovakia, Slovenia, Spain and United Kingdom.

level for Turkey had a better position where 11 countries have lower levels of minimum wage among these countries.

Besides Purchasing Power Parity to correct the minimum wage levels, Cost of Living Index is also used. Taking into account the cost of living in related countries, 10 countries have lower levels of minimum wage in 2016.

4. Conclusion

The study aims to determine the position of Turkey from 2000 to 2015 compared to U.S. and selected EU countries. However, our analysis shows that from the countries mentioned only five countries show lower levels of salary as a minimum wage level over the years. Besides their economical crisis, Greece has shown a higher level of both the minimum wage amount and the living standards than Turkey. The information follows Luxembourg as the highest minimum wage determining country also with the highest standards of living.

Keywords: Minimum Wage, Turkey, EU Countries

JEL Classification: J30, J31, J38

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An Evaluation of the Present State of the Teaching of Public Finance

İzzettin Önder¹

The Public Finance seminars, of which 32nd is being held this year, was launched more than 30 years from now, with the title, different from the present title, "Teaching Public Finance". I was also one of the speakers in the first seminar and made a presentation on differences of areas and subject matters between universities or research institutes and occupational schools or high schools. I argued there that at occupational schools, as can be understood from their title, established knowledge is taught and transferred to students, whereas at universities much wider area of research and investigation on alternatives should be carried out.

Today, my subject is related to this, yet at an elevated level. That what we are teaching as the science of economics or public economics simply reflects the mainstream knowledge, where an imaginary world is modelled and is taught as sole universal science, which has simply no relevance whatsoever to the reality. As Mark Blaug (1985: 697) points out, "*...Economists have always regarded the core of the subject as 'science',.....they frequently lost sight of this scientific objective and the history of economics is certainly replete with tautological definitions and theories so formulated as to defy all efforts at falsification.*" Thus it seems as if we are simply reciting theories without evaluating their relevance to reality. In this strand of thought it can be said that economists are making themselves busy by ever reciting perfect competition, the profit motive, and ever increasing production that manifests *laissez-faire* economics which has disappeared long ago.

When we shift our attention to the teaching of Public Sector Economics, it is commonly seen that almost the same professional behavior manifests itself here, too. Though Public Sector Economics, which deals with the economic activities of the government, is subordinated to the private sector, we begin analysis as if the subject is totally autonomous body of science, quiet distinct from the private sector, with its own rules and theories. As the result of such approach we perform our profession under the veil of ignorance, which makes one uninformed about historical events and remain blind to future facts. As an example when Professor Musgrave's masterpiece, published in 1959, is compared to old texts such as Dalton's and/or Pigou's, enormous differences appear. Almost similar differences can be traced out when compared with recent texts. It can be contended that as time passes, facts differ naturally that have reflect in theories. Anyway, this fact unearths a very important problem, which is that the methodological issue is lacking to a great extent that should be worth paying attention in scientific investigations, especially in social sciences. It seems that many scientists, economists and public finance professors consider methodology as a waste of time, a kind of side-subject, which is not of any interest for them.

At that stage when we turn our attention to methodological issue in scientific investigations, especially in social sciences, two dimensions appear as crucial issues. One dimension, which reflects historical events such as historical socio-economic issues and/or changes which had taken place in the past, is concerned with relational-historical dialectic; the other dimension

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concerns the plurality of science approach as opposed to a single dimensional approach. Relational-historical approach, which is being neglected to a great extent in contemporary investigations, illuminates the past and makes it possible to make projections to the future within reasonable margin. Keeping in mind that no phenomenon can be analyzed in isolation public finance scientists have to be aware of the fact that the Public Economics, being subordinate to the Private Economics, is not in coordination with the Private Sector under equal conditions, just the opposite, the Public Sector is in the position to be in the service of the Private Sector for allocative, distributive, and stability purposes whenever needed. Approaching the problem from this angle it becomes obvious that the Public Sector is a service sector of some kind to the Private Sector, but neither by possessing its own consciousness, nor being able to implement its own method of analysis. Thus the service turns out to be some kind of temporary remedy to the malfunctioning of the Private Sector.

As can be seen in the trajectory of the Public Finance literature, its teaching has evolved from tax-oriented approach towards expenditure-oriented approach, and eventually has gained a new face by strolling to pure market-oriented approach suggested by neoliberal economists, Nozick being the most radical among them by his suggestions quiet closer to libertarianism. This is quite a long distance that has been spanned from John Locke's liberalism to Nozick's near libertarianism, which triggered by market forces that altered state forms accordingly to accommodate relevant policies in its historical configuration. This turbulence also amended the teaching of Public Finance to accord itself to ever changing conditions that make themselves prerogative. This change reflects that liberalism is no longer a political recipe for neither balanced political power, nor a more fair society.

Thus the role of Public Sector Economics defined in the beginning of liberalism about a century or more from now has changed tremendously as the state policies passed through Keynesianism, and recently neo-liberalism. Such changes demonstrate that the state in its traditional form is gliding downwards on a slippery slope historically constructed by productive forces in their function and operation. All those changes force Public Finance to adopt new tools and ordered-policies while adjusting itself to new conditions. Neoliberalism exerts the condition that while the state needs the market to defy its expenditures, the market – the economy – does not need the state. The philosophy of politics has shifted from telocracy towards nomocracy (Plant, 2012; 7-16). This is due to two basic reasons. Firstly, the financial system has been so imperative on national economies that it is at the present time possible to impose some non-negotiable political conditions, which are contrary to liberal democratic principles. Secondly, the mobility of productive factors – especially capital – breaks the necessary link between capitalism and basic human rights, which was designed long ago by Welfare Economics. Thus we have now reached a type of society which is quite different from old-type familiar structure, which is almost totally under the control of international market forces with its detrimental effects in all respects, both allocative and distributive functions of the state, let alone stabilization function.

Another point of interest and worth mentioning in this context as an important aspect of scientific investigation as well as an unavoidable area in the teaching of both economics and public finance is pluralism in scientific investigations. As in economics, in public finance also the general approach is made under the prevailing rule of paradigm of market economy without concession to any other view. When the subject is confined in the area of solely one paradigm the conclusion would be inevitably insufficient in both theories and obtained results. Though there have been various developments in the way of pushing towards anti-pluralism, basic example being James O'Conner, such developments have not been successful in finding appropriate room in standard teaching activities. Thus mainstream teaching constitutes

important blockage to advancement of science without providing effective remedy to social problems. To get rid of obscure appearance of Science of Public Finance it is necessary to resist anti-pluralist paradigm dictated by interest circles, and to break through new areas of interest for general public by making theory for elucidation of conditions suspended on the general public. This should be made not in the interest of hegemonic classes just to justify and legitimate the system, but honestly in the interest of the general public. By performing this task the Science of Public Finance unmasks the ontological concepts and methodological biasness of traditional economists and will open up the path to further inquire the structures that generate them. Thus, by lifting the control of capital tycoons on the control of science the subordinate position of the Public Finance to the Private Sector will be altered and the launching of the science on its own principles would be possible in the way of serving the general public.

The biased character of the ontological nature of the Science of Public Sector Economics can be illustrated by considering the theory of public goods explained in the very first chapters of any text- together with taxation principles given in further chapters. Optimum production rule for public goods is given by the model where supply function intersects total demand function, which is constructed by vertical summation of individual demand functions. Up to this point there is no point of objection, reserving for the case that such demand functions are fictitious due to the fact that they cannot be revealed. However, when the analysis is extended to determine the distribution of burden among demanders, implicitly benefit principle in taxation enters the picture, which depends on prevailing size distribution of income in the economy. Later, when taxation issue is discussed in further chapter's passages equity in taxation is lengthily discussed as if such a rule is complied by in real policies. Such style of explanation of oxymoron in nature fulfills the function of science as servitude to power. The same argument is also valid as far as the title of the science is concerned, the Theory of Public Sector Economics, which reflects the opinion as if it is at the service to the general public to the extent its financial resources permit. However, as James O'Connor and many others put forth very boldly, the duty of the Public Sector Economics is nor threefold as modelled by Musgrave and Samuelson tradition, but simply to contribute to private capital accumulation on the one hand, and legitimization the system to make it perform smoothly on the other.

In short, notorious failure of traditional methods must be revalued and replaced by more real rules that may pave the way to more and beneficial service to the general public with the help of scientific research and investigations.

The following examples illustrate the present position of both Private and Public Sector Economics.

"If the United States is going to succeed in reforming its economy, it may have to begin by reforming economics" (Stiglitz, 2010: 238)

"Economics has become the organizing principle, the reigning ideology, and even new religion of our time. And this body of knowledge is controlled by a selective priesthood trained in a very particular type of economics, that is neoclassical economics." (Chang, 2017),

"Economics, as practised in University economics departments, regurgitated by policy makers, and summarised in the mainstream media, has become a form of propaganda" (Aldred, 2017)

"Economics is a subject of importance to all citizens, yet many economists have been unwilling to engage in the public debate made essential by the financial crisis and its consequences." (Coyle, 2017)

“The Econocracy offers an antidote to a tragic state of affairs in social science. Over the last century, economics has increasingly abandoned its roots as a rich science of human action in order to become an esoteric discipline with little relevance to the real world.” (McCaffrey, 2017)

“The economics profession is in crisis, as crucial flaws in its core ideas have been exposed by the financial crises of 2008, and by the deep economic malaise which has followed.” (Buchanan, 2017)

The sum of quotations does not lead us to be skeptical towards all kinds of expertise. The idea I wished to put forth is that the science of economics and public finance should be interwoven with ethics and politics, rather than being alienated to reality.

Last but not the least is the rule of **res publica** (Croce and Salvatore, 2015: 18), which states that *“government must never be conceived as the exclusive property of someone, but always as a mutual sharing of equal rights and responsibilities carried out in the interest of all citizens in compliance with what they consider to be their interest.”*

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The Evaluation of Special Consumption Tax Exception for Disabled as a Tax Expenditure

Hülya Kabakçı Karadeniz¹

1. Introduction

The use of motorized vehicles is an important part of increasing the quality of life by facilitating the life of the disabled people. The Orthopedic disabled citizens; If the disability rate of the disabled is above of the 90% ofe they have eligible special vehicles disabled or the third degree of the disabled people benefits from the excise consumption tax on the first purchase of the vehicle (once every five years).

In the tax system, we can define tax expenditures which are incomes the state gives up by applying institutions such as exception, exemption, discount, low tax rates. The Special Consumption Tax (SCT) exception for disabled people who purchase motor vehicle is tax expenditure.

To facilitate the travel of the disabled people, state has implemented exception for both a special consumption tax annual Motor Vehicles Tax. Undoubtedly these implementations are probable. Nevertheless, it is clear that disadvantaged people living in low-income groups can not benefit from this exception and this leads to inequality between disability.

The aim of the study is to show that the tax expenditures for the disability are limited to those with high income levels and suggest similar advantages to low-income disabled people in order to eliminate this disparity.

The disabled who preventing daily activities, physical or mental problems estimated according to car ownership, poverty status and income groups by using the TURKSTAT Household Budget Survey micro data set (2014).

2. Tax Expense

Tax expenditure, which is the income the state gave up; Exemptions in the tax system, exemptions, tax delays, low tax rates and tax losses that occur in the form of practices.

The spending is not seen as a part directly from the budget and increasing public expenditures, but by tax abandonment (Pehlivan, 2010: 162). The beneficiaries of the tax expenditure are benefiting from the benefit of the state by not paying the tax instead of providing this benefit and this expenditure can be considered as the transfer expenditure (Edizdoğan et al., 2013: 209).

According to figures realized in the year 2015, TL 10.980 million is excise tax exemption and 870 million TL is vehicle exemption exemption for the disabled with a total tax amount of TL 79.582 million.

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Table 1. Tax Expenditures and Estimates by 2015-2019 Period According to New Settlement (Million TL).

LAW NAME / YEARS	2015	2016	2017	2018	2019
Income tax	30,353	33,699	37,714	42,134	46,851
Corporation tax	12,298	13,529	15,11	16,881	18,771
Value-added tax	16,865	20,992	23,493	26,247	29,185
Special Consumption Tax	10,98	12,444	14,711	16,504	17,879
Special Consumption Tax (Exception to Buy Vehicle for Handicapped)	870	957	1,072	1,197	1,331
Motor Vehicle Tax	534	588	658	735	817
Bank Insurance Treatments Tax	8,521	9,374	10,491	11,721	13,033
Special communication tax	31	34	38	42	47
Grand total	79,582	90,66	102,216	114,264	126,584

Source: Ministry of Finance, Tax Expenditure Report, 2016

3. Disabilities, Poverty and Ownership of Cars

SCT exemption for disabled people; limited only for passenger cars and motor vehicles for human transport and for their first acquisitions (Şenyüz et.al.:209: 299). In purchasing vehicles with the SCT disability discount, income levels of the individuals are not considered.

Families with disabilities or individuals with disabilities in the family are not eligible for this exception. While a disabled person with a high income level may have a car worth 240.000 TL in the market, the state gives up the tax of 100,000 TL through tax expenditure. However, those with low income levels can wait years to get a cordless chair.

In Table 2, the number of persons with disabilities who live below and above the poverty threshold is given as both the number and the percentage. Poverty threshold is calculated according to relative poverty. Those who earn less than 60% of median income in the calculation are considered poor.

871341 people with disabilities in his household; 15% is below the poverty threshold, and 85% is above the poverty threshold. In other words, the vast majority of those with a car are living on the threshold of poverty.

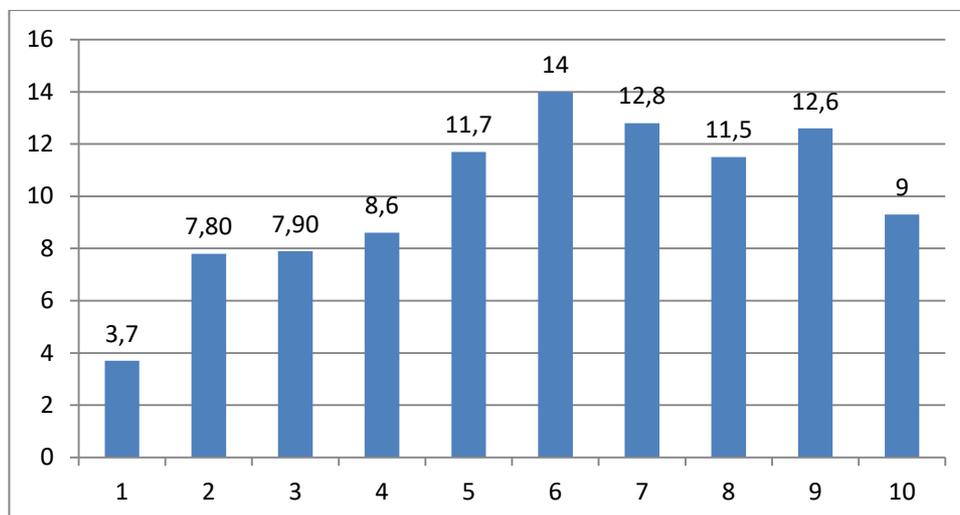
Table 2. Distribution of Disabled Persons by Auto Ownership and Poverty Situation

		Poverty is under the threshold	Poverty Above the Spike	Total
Non-Car	Number	710980	1525902	2236882
	Percent(%)	31,8	68,2	100
With the Automobile	Number	129501	741844	871345
	Percent (%)	14,9	85,1	100
Total	Number	840481	2267746	3108227
	Percent(%)	27	73	100

Source: TURKSTAT Household Budget Survey. It is calculated by the author from the 2014 Micro Data Set.

As can be seen in Figure 1, the barriers in the cars are located in the middle and upper income groups.

Figure 1. Distribution of Barriers Found in Automobile Cars by Income Groups (%)



Source: TURKSTAT Household Budget Survey. It is calculated by the author from the 2014 Micro Data Set.

5. Conclusion

The reduction of SCT, which is granted to disabled people in the purchase of new vehicles, may be beneficial in terms of facilitating the life of the disabled, in the context of social life integration. On the other hand, the disability of the individual may emerge as a factor that increases the risk of poverty. In Turkey, it is difficult for the disabled to reach the equipped wheelchair with a price between TL 2,000-80,000 . By providing similar arrangements for disabled people who can not go out because they do not have a wheelchair, vehicle taxes can be paid by the state or wheelchair tax exemptions can be recognized. In the current practice, with the excise tax excluded in the purchase of vehicles for the disabled, the state spends tax without considering the solvency of the individual and including luxury vehicles. Here, besides the 1600cc limit brought by SCT, a price limit can also be introduced. As a matter of fact, there is a limitation on the exemption of real estate tax for disabled people. The only small house with 200 square meters is immune to the real estate tax. A similar limitation may be the case for motorized vehicles. This limitation can be brought to the price of the vehicle. The savings achieved can be attributed to the allocation of wheelchair and battery-powered vehicles with low income levels.

Also included are people with chronic illnesses related to old age within the definition of disabled people. Here too, the elderly bedded prisoner. Older people with the disease have passed the 90% disability limit, families can benefit from this discount for their own use for personal comfort. After the death of the elderly, the tax-free vehicle is inherited. When a tax exemption is granted, a special adjustment to the disability status due to aging can reduce the amount of taxable exemptions.

Key Words: Tax Expenditure, Private Consumption Tax, Disability

JEL Codes: H20, H53

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Fiscal Drag as an Automatic Stability Tool, in the Case of New Regulation With Price Criteria in Automotive Sectors Special Consumption Tax (SCT)

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Canatay Hacıköylü²

1. Introduction

Fiscal drag is a result of real or nominal expanding economy and progressive taxation. In general, individuals are forced to enter the upper tax bracket depending on their increased income or expenditure. More tax burden can result in less consumption. Fiscal drag, lack of spending or excessive taxation can cause the economy to slow down. Traditional view suggests that fiscal drag may serve as a natural automatic stabilizer to cool the economy. However, this view ignores the supply side and in particular the potential effects of the high tax burden on labor costs. Recent studies of imperfect labor markets have shown that such effects can indeed emerge; because employees are able to bargain for high wages that partially compensate for tax increases. In this case, the upward pressure on actual labor costs could be inflationary. This study examines the extent to which the expected automatic stabilization function can be performed and the possible side effects on economic balances and income distribution of fiscal drag in our country in the case of new regulation with price criteria in automotive sectors Special Consumption Tax (SCT).

2. Fiscal Drag as an Automatic Stability Tool

Automatic stabilizers are generally associated with the cyclical nature of taxes, transfers and public expenditures. Automatic stabilizers are economic policies and programs designed to balance fluctuations in disposable income, and therefore in consumption, of imbalances stemming from business cycles, without the individual intervention of policy makers. The issue that automatic stabilizers can contribute to the general instability of the economy is not much discussed. Automatic stabilizers can lead to the expansion of the public sector's share in the economy. While the growth of the public sector, which has a stable spending structure, will reduce the fluctuations in the economy, should generate long-term negative effects on the general level of prices and employment markets. (Fatas and Mihov, 2001: 5-6)

Inflation affects the structure of the tax system and can therefore change the realization levels of tax revenues. (Heinemann, 2001: 543) It is the erosion of the limits of the progressive income tax rates, most well-known and researched. If corrective adjustments are not made, an increasing tax rate will generate more real tax burden as nominal income increases (fiscal drag). Many countries have introduced automatic inflation adjustments to their tax systems. However, there is also a strong economic argument widely pushed for tax hikes related to fiscal drag. According to this view, increasing the real tax burden reduces consumption and

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thus collecting excess demand by acting as an automatic stabilizer to help cool the economy during the inflationary waves. However, this point of view focuses on the demand side, ignoring the impact that high tax burdens would have on production costs. If workers have bargaining power, real labor costs will increase and there will be an upward pressure on prices, which will increase the likelihood of a price spiral. (Immervoll, 2006: 141)

For example, consider an individual who is subject to the average tax rate τ_a and the marginal tax rate τ_m . If inflation is π , nominal gross wages w should increase by Δw . We can show this in the following equation;

$$\frac{\Delta w}{w} = \frac{1 - \tau_a}{1 - \tau_m}$$

According to this equation, if we consider an individual with pre-inflation wage $w = 100$; then if $\tau_a = \% 30$, $\tau_m = \% 50$ and $\pi = \% 10$, the nominal wage of the individual will need to be increased by $\Delta w = 14\%$ in order to be kept at 70, the first level of pre-tax gain. The higher the rate of progressivity in the tax base, the greater the additional tax burden caused by nominal wage increases, depending on inflation. As a matter of fact, real wage costs will rise and prices will exert upward pressure, as wages will increase beyond inflation, even though real income after taxes before the inflation is not fully achieved. With total demand is lower because of higher taxes, an upward supply curve leads to a significantly lower output. As a result, if aggregate demand remains unchanged (despite increased public spending for example), the economy will see both low output and high prices. (Immervoll, 2006: 144-145)

3. New Regulation on Special Consumption Tax (SCT) on Automotive Sector

Special Consumption Tax (SCT), where certain groups of goods are taxed is a newer tax than the other tax types in the Turkish tax system which is a single-stage, high-yielding and effective in the implementation of fiscal and social policies. Indeed, the Council of Ministers can implement effective fiscal policies for groups of goods and sectors falling within the scope of this tax by modifying the tax rates and amounts for the excise tax. One of the groups of goods which are implemented with effective fiscal policies through Special Consumption Tax is the motor vehicles and automotive sector listed on the list (II) attached to the Private Consumption Tax Law no. 4760. This group of goods and therefore the sector is regulated almost every year. The latest arrangement was made in November.

Vehicles listed in the list (II) attached to the SCT Law are subject SCT, at first acquisition of those which are subject to registration, and production of those that are not subject to registration. The tax base of the SCT is composed of the components of the value added tax (VAT) base except for the special consumption tax to be calculated in the first acquisition of the vehicles. One of the issues that cause constant debate in relation to SCT is taxation rate. Decree of the Council of Ministers dated 24.11.2016 and numbered In accordance with Decision No 2016/9542, a number of changes have been made to the SCT rates applied to passenger cars listed in (II). Before the changes made, different SCT rates are applied in three categories according to the engine cylinder volume of the vehicles in the Turkish automotive market, along with the mentioned Decision, the SCT rates applied to passenger cars are further elaborated by classifying the vehicles according to the pre-tax price of the vehicles in the relevant categories. According to this, the rate of the taxation varies between 45% and 160% compared to the pre-tax price as well as the engine volume. As a result, determination of the SCT base and the pre-tax price related to the passenger cars became very important.

4. Conclusion

One of the biggest reasons for the contraction in the automotive sector in Turkey is the decrease in domestic demand. In our country, particularly high sales taxes related to automobiles reduce demand. If the tax policy is applied to the demand, it will be possible to increase the sales in the inner market and increase the production accordingly. In addition to the high demand provided by SCT rates, which are especially applied in light commercial vehicles in our country, it is also important not to ignore the export support of market dominance in domestic products provided in the domestic market. Companies operating in the automotive sector are reducing their sales profits in response to declining demand. With the new SCT regulation, the pre-tax price, which is directly linked to demand, has become quite significant. Even if the companies in the sector do not make a price increase related to passenger cars, pre-tax price may decrease or increase periodically in connection with the exchange rate and the amount of tax to be paid may change. In the period of exchange rate increase, automatic stabilization is expected to be achieved by with excess demand being reduced as a result of fiscal drag. However, despite the fact that the ownership rate of cars in our country is lower than that of European countries, it shows a rapid increase in recent years. In our study, we are trying to determine if rising in the long-term demand, despite the decline in the short term by possible exchange rate scenarios, will limit the impact of automatic stabilizers and create a negative impact on employment and income distribution.

Key words: Public Finance, Taxation, Fiscal Drag, Automatic Stability Tool, Special Consumption Tax, Optimal Taxation.

JEL Codes: H21, H23, E62

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Obesity Tax Experiences of Countries*

Işıl Ayas¹

Naci Tolga Saruç²

1. Introduction

World Health Organization reports reveal that obesity rates have increased twofold since 1980. According to the latest figures; of the adult population over the age of 18 in 2014, 39 % are overweight and 13 % are obese (World Health Organization, 2016:1). It is seen that countries often resort to taxation policies in their fight against rising obesity. The aim of this study is to examine the effect of obesity tax on consumption in tax practicing countries. Studying the rates of change in consumption figures is critical for evaluating the success of the tax. Therefore, scope of obesity tax and changes in consumption rates of taxed products will be studied. A literature review was carried out for the study to examine the changes in tax practicing countries.

2. Effect of Obesity Tax on Consumption

Changes in consumption rates in tax-practicing countries the U.S.A, Mexico, Finland, France, Denmark, Belgium and Hungary will be studied.

2.1. U.S.A.

According to OECD (2013) data, the U.S.A. is the country with the highest obesity rate with 35 %. Sugary drinks are subject to 1 to 8 % obesity tax. There is not a single tax type practiced in the whole country. Many states held referendums about applying obesity taxes in order to fight against rising obesity rates and decrease daily sugar intake of Americans. Referendums passed with various voting rates; Berkeley (2015) % 61, San Francisco (2016) % 61, Oakland (2016) % 60, Albany (2016) % 70 and Boulder (2016) % 54 (Prentice and Baertelein, 2016). Obesity tax rate is 1 cent per ounce³ in Berkeley, 1 cent per ounce in San Francisco (from 2018), 1 cent per ounce in Oakland (from 2017), 1 cent per ounce in Albany and 2 cents per ounce in Boulder. After the proposal of Philadelphia governor, the state council passed a 1.5 cent tax per ounce of sugary drinks in 2016.

Taxation results show us that obesity tax in Berkeley caused a 4 % increase in sugary drinks prices, which led to a 20 % fall in sales (Falbe et al, 2016:1865).

* This study is derived from the second part of Işıl AYAS's doctorate thesis titled "Perceived Effectiveness of Obesity Tax in Fight with Obesity"

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³ Ons: One ounce is equal to 28.34 grams.

2.2. Mexico

It has the second highest obesity rate (% 32) after the U.S.A. After 1 peso (0.06 Euro) tax was brought per liter of sugary drinks (causing approximately 100% price rise), sales figures fell by 10 % for the first three months. Consumption of healthy drinks such as milk and water rose by 10 %. Total drop in sales was 12 % one year after the tax was introduced. The tax hit the middle-sized businesses most (Cornelsen and Carreido, 2015). A study revealed that more than half of customers cut down on consumption after the tax (Guthrie, 2014). The highest price increase as a result of obesity tax was seen in fizzy drink. Another interesting result is that the price of untaxed diet products increased as well. This might be explained by the increase in demand of diet products (Groger, 2015).

2.3. Finland

OECD data show that 25 % obesity rate of Finland is far above the OECD average (19 %). In 2011, Finland brought additional tax on candies, chocolate and cocoa-based products. Moreover, tax on sugary drinks was extended. Sugary drinks prices rose by 7.3 % in two years after the tax (despite the expected 4.5 rise). Decrease in demand is 0.7 in 2011, 3.1 % in 2012 and 0.9 % in 2013 after the tax (Cornelsen and Carreido, 2015). Tax on candies was lifted by government in 2017.

2.4. France

According to OECD data, France is one of the countries with the highest increase in obesity rate (61 %) between 2000 and 2013. In 2012, 7 Euro tax was put into effect for each hectoliter of sugary fizzy drinks, sugar added juice and aromatic water (European Public Health Alliance, 2015:1). Sugary drinks tax caused 3.5 % rise in prices. The tax was 11 cent (euro) per liter and caused 4 % fall in consumption after 5 months. Consumption rates fell further 2 % in 2012 and increased by 0.5 % in 2013 and 0.5 % in 2014. These numbers indicate that people are get used to price increases gradually in the following years.

2.5. Denmark

Obesity rate in 2013 is 13 %. Obesity rate rose by 49 % between 2000 and 2013. It is possible to say that Denmark is under a serious obesity threat according to the this trend. Denmark subjected each kilogram of foods with more than 2.3 % saturated fat to 16 Danish crowns (2.15 euro or 2.84 dollars) in 2011. After the tax, consumers went abroad for shopping, giving rise to unregistered sales. Having caused so many similar problems, the tax was lifted after 13 months (Euromonitor, 2015).

2.6. Hungary

The fact that two thirds of the population are overweight or obese and obesity rate in 2010 (18.8 %) is higher than European Union average (15.5 %) caused Hungarian government to put obesity tax in effect in 2012 in their fight against obesity. Thus, the

government decided to tax sugary drinks, energy drinks, sugary products in packs, salty snacks and gravy. These products are subject to 10 forints (0.037 euro) (Cheney, 2011). After taxation, it was seen that consumption of these products decreased between 25 to 35 %. It was also found that consumers avoided consuming products that were taxed during production stage. Sales figures of taxed products fell by 27 %.

3. Conclusion

Studies of obesity tax experiences of countries show that many countries practice tax mainly on sugary drinks. Tax practice on sugary drinks was facilitated by the fact that taxation on drinks rather than food causes less public reaction, many health studies relate sugary drinks to obesity and it is easier to practice it on drinks than food. It seems more difficult to apply tax on food, for example; Denmark and Finland was lifted almost in one year after its application because of public reaction. Some experts say that tax on foods is not practical and successful. On the other hand, obesity tax on drinks as a deterring effect on consumption.

Keywords: Obesity Tax, Country experiences, Effect on Consumption

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Obesity Taxes and Poverty

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1. Introduction

Like all over the world, obesity rates have been rapidly raising in Turkey, which is not only a health problem but also a problem of economic and social consequences. The increasing rate of obesity, adversely affects the health of the community as well as it heightens the burden on public health expenditures in our country. Studies show that obesity is concentrated in low income groups which needs to be taken into account when generating solutions. Countries have developed different methods to combat obesity. These include medical precautions, awareness raising educational activities and economic measures. Especially the high impact capacity of economic measures plays an important role to influence individual preferences of their unhealthy products.

Obesity taxes (fat tax) can be considered the most popular economic measures which is the taxation of unhealthy foods leading to obesity. The obesity taxes, which was widely applied in the 2000's (Mexico, Denmark, Hungary, France, et al.) is not yet implemented in Turkey. However, these taxes aim to reduce obesity are known for their regressivity which calls for further analysis for their potential impacts on social welfare. In the light of the studies assessing the social welfare results of the obesity taxes implemented in the different countries, the goal of this study is to evaluate how suitable the current implementation of obesity taxes with its advantages and disadvantages can be for Turkey, as well as assessing the different solutions from social welfare point of views.

2. Literature Review

Taxation has an important role in fight against obesity. The goal of this tax is to prevent individuals from consuming unhealthy foods. In this respect, the literature on obesity taxes can be divided into three different categories within itself. The first group consists of studies which examine obesity taxes in the context of tax law and reveal the legal structure and characteristics of these taxes. Creighton (2010), Gostin (2007) and Levmore (2005) can be an example of this category. These studies approach the obesity tax in general from the perspective of law, in particular from the tax law perspective, or investigate the applicability of this tax. In Turkey, Akar (2015), Gökbunar et al. (2015) and Özden (2016) are examples of the studies in this group. In the second group, studies examine the success of obesity tax in respect to health outcomes. In other words, studies in this group have focused on the success of reducing obesity in the countries where obesity tax is being applied. Studies by Bødker et al. (2015), Claro et al. (2012) and Dharmasena & Capps (2011) can be given as examples in this

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category. These studies often consider obesity tax unsuccessful in reducing obesity. In the third group, studies examine the economic effects of obesity and obesity tax. These studies analyze a wide range of economic issues related to obesity and obesity taxes such as the economic costs of obesity (direct or indirect costs) to the role of the state, from the burden of obesity on health expenditures to the effects of obesity taxes on poverty and income distribution. Studies by Allais et al. (2010), Caillavet (2005), Härkänen et al. (2014) and Wang (2015) are examples in this category. There are limited studies in Turkey which examines the economic effects of obesity. For instance, Seçilmiş (2014) evaluates the role of the state in combating obesity, while Saruç et al. (2015) examines the direct and indirect costs of obesity and Gökbnar et al. (2015) evaluates the tools of fiscal intervention to the problem of obesity. While many of these studies addresses the regressive effect of obesity taxes, their main goal is not to examine the impact of obesity taxes on poverty and income distribution. Although the effects of obesity taxes on poverty and income distribution have been extensively researched in developed countries, the research in Turkey on possible consequences of obesity taxes on social welfare is scarce. This study is an attempt to fill this gap in Turkey.

3. Conclusion

In this study examples of obesity taxes were examined with an emphasis on the impact of these taxes on social welfare. While obesity taxes are widely used in fight against obesity, the impact of these taxes on social welfare are found to be negative and the success of these taxes on decreasing the rate of obesity is questioned. Implementing an obesity taxes alone can adversely affect the income distribution and poverty in Turkey, therefore different alternative methods for Turkey in fight against obesity are discussed in which from a broad base and comprehensive taxation to earmarking evaluated and more tailored social policies are suggested based on socioeconomic status of obese people in Turkey.

Keywords: Obezite Vergisi, Yağ Vergisi, Gelir Dağılımı, Regresif Vergiler.

JEL Codes: H21, H23, I12, I14, I18, I10, I20.

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The Antidote to Economic Fragility in Turkey: Fiscal Discipline Anchor

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1. Introduction

Turkey went through a significant structural change, liberalizing movements of goods and capital in order to integrate into external world in post-80 period. While it had applied a policy of import substituting development up until then, a policy of export-oriented development began to be implemented from that period on. Although an outward development policy has advantages, it brings about such disadvantages such as being vulnerable to global risks and speculations.

When the post-80 period in Turkey is reviewed, it is observed that some of economic crises it has experienced were endogenous while others were exogenous. Whether it is endogenous or exogenous, an economy's resistance to crisis is closely related to fiscal discipline. For instance, deviation from fiscal discipline- high budget deficits underlay the chronic inflation with high rate during the period encompassing 1980-2001. Applying frequently to resources of central bank to narrow budget deficits led to continuous monetary expansion, which resulted in high inflation and high interest rates. Depreciation of national currency along with the high inflation led to the rise in exchange rate (devaluation in fixed exchange rate system), currency substitution, deterioration in resource allocation and income distribution, in other words, to increase in economic fragility. It is the situation that was observed in Turkey during the crises in 1994, 2000 and 2001, all of which were endogenous.

When the state of Turkish economy in post-2001 period is reviewed, it is seen that effects of external crises have been experienced in the absence of internal crisis. The 2008 global financial crisis was the worst economic crisis the world experienced since the Great Depression of 1929. Although it was outward during the period of the crisis, Turkish economy escaped with slight effects of the crisis with the help of its strong financial sector and fiscal discipline. The 2008 global financial crisis did not cause any adverse outcomes in Turkey's financial sector; however, decline in incomes of European countries due to the crisis affected Turkey's export in negative way and Turkey's economy shrank in 2009.

During the period following 2009, Turkey's economy continued to grow constantly until third quarter of 2016. In the period when the United States and many developed countries could not fully get over the effects of the 2008 global financial crisis, Turkey's economy grew at much higher rates compared to these countries. However, growth rates of Turkey have declined over the last 3-4 years and been below the potential growth rates. It is obvious that

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there are economic reasons as well as some other causes which could not be explained by any theory. Turkey's relations with IMF, which started in 1962 and saw 19 standby arrangements, ended in 2013 when the last debt was paid. While major infrastructure projects enhanced Turkey's dignity in international arena on the one hand, it would be fair to say that sharp increases in exchange rates as of mid-2016 have raised Turkey's fragility on the other hand. The fact that a fiscal discipline has been achieved in the economy is the most significant factor in ensuring the Turkish economy, which was thrown into crisis by sudden fund outflows in 2001, not to go through a crisis despite more fund outflows in 2016. The share of public sector debt stock, which is one of the main elements of fiscal discipline, in GDP and the share of budget deficit in GDP are rather low and in conformity with Copenhagen criteria, which has principal role in minimizing the fragility.

2. Literature Review

There are a vast number of theoretical and empirical studies on the significance of fiscal discipline and on negative outcomes of deviation from fiscal discipline. In particular, there are scores of scientific studies regarding the effects of the budget deficit on inflation, interest rate, exchange rate, and long-term economic growth.

In his study for Greece on the period of 1954-1993, Darrat (2000) looked into the relation between money supply, budget deficit and inflation. According to the results of error correction model, monetary growth and budget deficit have significant role on inflation.

Catao and Terronos (2003) studied the relation between budget deficits and inflation in 104 countries with high inflation and low inflation rates for the period of 1960-2001. As a conclusion of various econometric tests within the framework of panel data analysis, they found that there was a strong relationship between budget deficits and inflation in developing countries which have high inflation rates while there was not a strong relationship in developed countries with low inflation rates.

Neyaptı (2003) researched the relationship between budget deficits and inflation in a study carried out on 54 developing countries. In the study, it was concluded throughout the panel that the budget deficits had inflationist effect.

Günaydın (2004) examined the budget deficit-inflation relation in Turkey in a study encompassing the period of 1971-2002. In the study where unit root tests, co-integration analysis, and error correction model were used, a positive and significant relation from budget deficits towards inflation was found. It was concluded in the study that budget deficits underlay the inflation in Turkey and that changing the way of financing these deficits and ending monetization would not remove the budget deficit-inflation relationship.

Demir et al. (2005) studied the relation between public sector borrowing requirement and inflation as well as other elements of instability in Turkey for the period of 1987-2003. In the study where co-integration and error correction models were used, it was revealed that public sector borrowing requirement had a direct relation with interest rate and inflation rate while having an inverse relationship with growth rate.

Barışık and Kesikoğlu (2006) researched the relationship between budget deficits, inflations, current deficits, employment, growth, and investment in Turkey for the period of 1987:1-2003:4. As a conclusion of the study, a two-way relationship between budget deficits and inflation was detected. Moreover, a finding which is in conformity with dual deficit hypothesis was obtained between the budget deficit and current deficit.

In an article in which fiscal discipline and economic crises were examined within the framework of Washington Consensus, Karakurt (2010) concluded that 1994 and 2001 crises were experienced during the period in which fiscal discipline was not achieved while the economy was more resistant to fragilities since the fiscal discipline was largely fulfilled and public deficit was brought under the control.

Bedir and Tural (2014) examined the budget deficit- inflation relationship in Turkey for the period of 1970-2010 by means of bounds testing approach. For that purpose, ARDL estimations were made through 9 different models including internal and external factors which affect inflation rate and some results that supported financial theory of price level both in the short and long-term. In the study it was concluded that a mixed model comprising internal and external factors such as budget deficits, exchange rate, deficit, interest rates, money supply, income per capita, public consumption expenses, and debt service affected the inflation in short and long terms on different coefficients.

Öruç (2016) studied the relationship between budget deficit and inflation in Turkey for the period of 1950-2014. In the study, the Philipis-Oualiris method was used following the unit root test for co-integration that defines the long term relationship between budget deficit and inflation. In the end, coefficient estimations were made by means of dynamic least squares method. As a result it was found that the rise in budget deficit seriously affected the inflation. According to the study, an increase in budget deficits by 1% raises the inflation rate by 4-5%.

3. Conclusion

The Turkish economy's deviation from fiscal discipline until 2000s was one of the key reasons for economic fragility. The cause of high inflation was the high budget deficits during that period. Disinflation has been experienced in a considerable extent during the period of post-2002 in which budget deficits have been lower. The biggest handicap for the stable growth in the long term is the high inflation rates.

In the period of post-2001, that the 2008 global financial crisis affected Turkey's financial sector and partially influenced real sector in 2009 was resulted from the fiscal discipline which was fulfilled. The fiscal discipline anchor was the main factor that prevented the slow growth rates after 2013 and, in particular, the serious increases in the exchange rates in 2016 from creating an economic crisis.

Keywords: Economic Fragility, Fiscal Disciplin Anchor, Turkey

JEL Codes: E66, H30, H59

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Tax Burden, Consumption Expenditures and Investments in Turkey: A Bound Testing Approach

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1. Introduction

Tax burden (tax incomes/GDP) can be mentioned to be affected by other economic variables and affect them, on the other hand to be a dually characterized phenomenon as a dependent or independent variable. Besides, the tax incomes that interact with socio-demographic factors apart from economical actors have remained significant as a widely disputed problem, posing as the main subject of a great many theoretic and empiric studies. With this regard, the interaction of tax incomes with other variables (consumption and investment expenditures) is a subject to be handed elaborately in terms of the maintenance of financial policies of each country.

The aim of this study is to analyze whether there is co-relation among tax incidence (kinds), consumption and investment expenditures in Turkey between 1980 and 2015. Tax incidence has been attached to the analysis having been labelled into five groups as total tax incidence, direct, indirect, income and corporation income taxes. With this regard, corporational information has been supplied mentioning about the relations among priorly tax incomes- consumption expenditures and investment expenditures. Afterwards, a comprehensive summary of the studies having been carried out on national and international platforms with regard to the topic has been presented. Then, the relation among the pre-mentioned macro-economic variables has been analyzed having been empirically tested.

2. Literature

In literature, the relation(s) among tax income, consumption expenditures and investments have been studied in various countries with regard to distinctive periods, and related findings have been pointed out. Out of the studies peculiar to the economies of foreign countries, Mendoza etc. (1995) use the panel data technique for 18 OECD countries and investigate the period between 1966 and 1990. Writers find out that a restriction to be realized in terms of consumption taxes would pose negative effects on investments. Munir and Sultan (2016) use the ARDL technique in their study on Pakistani economy and classify taxes to study the period between 1976 and 2014. The writer's emphasis the fact that in long run, direct and indirect taxes pose positive effects over real GDP.

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There have also been studies and analyses peculiar to the Turkish Economy related to the macro-economic relations in relation to tax incomes. For instance, Ünlükaplan and Arısoy (2011) have concluded their study involving the period from 1968 to 2006 with the findings signifying that Real GNP and tax income are related at long run.

3. Data Set, Econometric Method and Findings

In the study, the relation among total tax burden (TTR), indirect tax burden (ITR), direct tax burden (DTR), income tax burden (IT), corporations tax burden (CT), consumption expenditures (CE), and investments (INVE) has been analyzed taking advantage of the ARDL method. In the ARDL models based on the unrestricted fault correction model, the model related in a co-integration way is twice guessed via EKK. Whether there is co-integration or not is decided by comparing the table values calculated by Pesaran etc. and the t statistics of a delayed value of a dependent variable and F statistics calculated via WALD test afterwards. Bounding test methodology can determine if there is a co-integration between two variables regardless of to what extent it is stable. The data set made use of in the study is comprised of the annual data regarding the period between 1980 and 2015. The data collected is set from the WEB site of the Ministry of Finance of the Turkish Republic. First of all, the individual features of the series were tried to be separately revealed via the unit root test, Extended Dickey-Fuller (ADF). The purpose of it is the desire to prevent the fake regression problem to come up within the variables (Yamak and Korkmaz, 2006).

In accordance with the ADF unit root test results, in the levels of LITR, LDTR and LTTR series, LCE, LINVE, LIT and LCT series are stable at the first period difference. Given the results, all the variables used in the study are not stable at the same level. Due to this, short period and long period relations were observed via the bounds test. Priorly, whether there is a long term relation was defined, and the result that there is a long term relation between 1% LIT in terms of significance (income tax/GDP) and LINVE (investment expenditures), and between 5% LIT in terms of significance level (income tax/GDP) and LCE (consumption expenditures) in terms of significance level. In the light shed by this research, an error correction model was put forward. In accordance with the defining results of ARDL, a negative and statistically meaningful relation between income tax burden and both consumption and investment expenditures was detected.

4. Conclusion

In the study, the relations among tax burden (income tax burden, corporations tax burden, indirect tax burden, direct tax burden and total tax burden) and consumption and investment expenditures in specifically the Turkish economy from 1980 to 2015. In the research, whether the series preceding ARDL test are stable or not was examined via ADF test. In accordance with the stability test, the series were identified stationary at different levels. Following the stability analysis, the bounds test approach developed by Pesaran etc. (2001) has been taken advantage of for the sake of identifying the co-integration relation. The existence of the co-integration relation between income tax

burden and consumption and investment expenditures was discovered. In accordance with the pre-mentioned model where the effects of tax burdens on consumption and investment expenditures are measured, a detractive effect of income tax burden on consumption and investment expenditures has been discovered.

In the light shed by the findings of this investigation, it can be mentioned that the structuring of tax being simplified for the implementation of finance policies and being eligible for manipulation have great importance for the country's economical balance to be supervised in consideration of Turkish economy being fragile.

Key Words: Tax Burden, ARDL Method, Consumption Expenditures, Investments

JEL Codes: H20, E21, E22

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An Analysis of the Validity of Compensation Hypotheses in Turkey

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1. Introduction

One of the theoretical approaches explaining the impact of globalisation on countries' fiscal policies is compensation hypothesis. According to supporters of this hypothesis suggested by Cameron (1978) for first time, increasing competition and possible external shocks may occur a set of social risks as long as economies open to foreign countries, and thus also governments is obliged to intervene the economy with public expenditures to compensate losses of units affected from these risks (Ruggie, 1982; Rodrik, 1998). In this regard, some studies reveal that compensation hypothesis is not valid for every economy while some previous empirical studies in the literature confirm the claim of this hypothesis.

Similarly, research findings in the literature that test the validity of this hypothesis in Turkey do not overlap with each other. Therefore, this study basically aims to clarify uncertainty in the literature by testing the validity of compensation hypothesis in Turkey. In this study used cointegration and causality analyses, the linear relationship between trade openness and public sector size is investigated. Also, in this paper unlike some other studies, we investigated whether there are hidden relationships and asimetric causality among variables.

2. Literature Review

After literature review, it seemed that there are four studies testing the validity of compensation hypothesis in Turkey. In this regard, three studies investigated the relationship between trade openness and public sector size by using a nationally sample while there is a study that address the relationship between trade openness and social public expenditures in a regional sample. To test the validity of compensation hypothesis in Turkey, Aydoğuş & Topçu (2013) used Engle-Granger cointegration and Granger causality tests including the period 1974-2011, and also Şener et. al (2015) tested this relationship in the 1975-2013 period, using Johansen cointegration and vector autoregressive (VAR) Granger causality tests. According to their results, both of them failed to reach the validity of hypothesis in Turkey. On the

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other hand, Genç & Telatar (2015) analyzed this hypothesis by using Engle-Granger cointegration and error correction model (ECM) from the 1980-2013 period. The results of their analyses reveal that compensation hypothesis is valid in Turkey.

Moreover, Tuncer (2016), performing differently from other studies, investigated the validity of compensation hypothesis using 26 regions of Turkey with data from between 2004-2014. Moreover, according to the results of its panel cointegration analysis, this paper found that there exist a long-term relationship between regional trade openness and regional social public expenditures.

3. Empirical Analysis

3.1. Data and Econometric Method

To test whether the validity of compensation hypothesis exists in Turkey, we analyzed symmetric (linear) and asymmetric (hidden) relationships and causality between trade openness and public sector size in the 1975-2015 period by using time series analysis. Firstly, Granger & Yoon's (2002) and Hatemi-J & Irandoust's (2008) methodology that variables are divided positive and negative shocks is used to examine asymmetric relationships among variables in the search process. Secondly, to test series for stationarity, we use Zivot-Andrews (1992) unit root test. Thirdly, by using strongly cointegration test proposed by Bayer & Hanck (2012), this study tries to find whether there are cointegration relation among variables. Finally, to estimate causal relationship among variables, Toda-Yamamoto (1995) causality test is applied.

3.2. Findings

According to the results of Zivot-Andrews unit root test, all series are not stationary, but, if we take the only first difference of them, then they get stationary. According to the results of strong cointegration test developed by Bayer & Hanck (2012) who combined former four cointegration test, there is no a linear cointegrated relationship between trade openness and public sector size. On the other hand, there is a powerful cointegration relationship between positive and negative shocks of series in this test. The finding suggests that there is a long-term and hidden relationship between trade openness and public sector size in Turkey.

Tablo 1. Results of Bayer-Hanck Cointegration Test

Model	Fisher Statistics		Cointegration
	EG-J	EG-J-Ba-Bo	
$PSS = f(TRA)$	4.444	8.588	NA
$PSS^+ = f(TRA^+)$	11.047*	20.908*	A
$PSS^- = f(TRA^-)$	10.301*	15.105	A
<i>Critical Value (%10)</i>	8.678	16.964	

Note: * Statistically significant at the % 10, TRA: level of trade openness, PSS: Public sector size, In turn, EG-J-Ba-Bo: Engle-Granger, Johansen. Banerji et al. and Boswijk cointegration tests

According to the results of Toda-Yamamoto test that investigates causality relationship among variables, there is no a linear causality relationship between trade openness and public sector size, and there is otherwise one-way and asymmetric causality from trade openness to public sector size.

Tablo 2. Results of Toda-Yamamoto Causality Analysis

Basic Hypothesis	Lag $k=1, d_{max}=1$	χ^2 -Stat.	p -Value	Causality
$TRA \neq > PSS$	2	0.343	0.557	No
$PSS \neq > TRA$	2	0.038	0.995	No
$TRA^+ \neq > PSS^+$	2	3.259*	0.071	Yes
$PSS^+ \neq > TRA^+$	2	1.326	0.249	No
$TRA^- \neq > PSS^-$	2	3.935**	0.047	Yes
$PSS^- \neq > TRA^-$	2	2.352	0.125	No

Note: In turn, ** and * mean statistically significant at the % 5 and % 10. k is optimal lag length determined by Akaike, Schwarz, Hannan-Quin and Hatemi-J information criteria. d_{max} is cointegration rank.

4. Conclusion

It generates social risks arising from welfare loss for countries while globalism offers some opportunities. Compensation hypothesis claims that public expenditures are insurance to prevent welfare losses based on globalism, and also it suggests that countries' public sector tends to expand. This study that tries to fill a gap in the literature finds hidden validity of compensation hypothesis in Turkey. Therefore, risks generated by an increase in trade openness are compensated by some type of expenditure. For example, one of the expenditure types is social expenditures. Therefore, this finding supports Tuncer (2016)'s results. Consequently, further studies can investigate some important questions, such as which types of expenditures are influenced by globalism in the context of compensation hypothesis?; How does globalism change fiscal policy preferences? And also they can focus macro and micro topics to test whether emerging social demands resulting from globalism support modern welfare state building.

Keywords: Compensation Hypothesis, Trade Openness, Public Expenditures

JEL Codes: E62, F62, H53

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Assessing the Public Incentives on Individual Pension System in Turkey on the Basis of Theoretical Approaches

Tülin Altun¹

1. Introduction

Among the public incentive policies that increase the household savings, especially with the revision made in the year 2012, Individual Retirement System (IRS) is prominent. In this study, the effects of the public incentives endowed to the new IRS in Turkey to the net household savings are examined in theoretical level and policy propositions are made about the system under the basis of various approaches. There are many theories that explain individuals' saving behaviors. The neo-classical economy theory, based on life income and permanent income hypothesis is one of the most appealed theories. However, the causes of the decrease of the private savings in Turkey since the 2000's cannot be fully clarified with the forecasts of the neo-classical theory. In the light of the other approaches that explain household saving behaviors, the evaluation of IRS and the improvement of public policies got the potential of increasing the macro and micro level benefits of the system. Within this paper, IRS in Turkey is evaluated in neo-classical, behavioral and institutional perspective.

2. Literature Summary

2.1. Theoretical Literature

The most important ones of the neo-classical theories are permanent income hypothesis and life income hypothesis (Friedman, 1957, Ando & Modigliani, 1963, Modigliani & Brumberg, 1954). The new generation of the life income, to the model, new assumptions are added that include imperfect financial markets, uncertainty and precautionary saving (Hubbard vd., 1994, Gale vd., 1996).

The behavioral theory that benefits from the psychological theory, examines the saving behavior according to both economic and psychological factors (Thaler, 1994, Shefrin, Thaler, 1988, Mullainathan & Thaler, 2000, Bernheim & Rangel, 2005). Behavioral theory criticizes the neo-classical economics theory's optimization, rationality and substitutability assumptions.

Institutional theory that focuses on the role of the establishments in the saving choices of individuals, searches how individuals can increase their savings with various institutional regulations (Han, C. & Sherraden, M. 2009, Beverly, S. G. & Sherraden, M.

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1999, Sherraden vd., 2003). Institutionalized saving mechanisms assert that the 6 institutional factors got the potential of increasing the saving ratios of the ones with low income which consists of financial education, public incentives, facilitation of the access to the saving institutions, the expectations that the system created about the saving level, saving limits that can be made on the system. In institutional perspective, the importance of public policies is pointed out.

2.2. Empirical Literature

There are many empirical studies that test effectiveness of public incentives on individual retirement system. Some of them are Attansio vd. (2004), Guariglia & Markose (2000), Engen vd. (1994), Börsch-Supan vd. (2007), Burman vd. (1990), Gravelle (1991), Gale & Sholz (1994), Schmidt-Hebbel (1999), Fajnylber ve Reyes (2012), Poterba vd. (1994) and Venti & Wise (1986, 1990).

3. Individual Retirement System in Turkey and Public Incentives

The individual retirement system that first started in 2003 in Turkey was revised with the law changes in 2007, 2012, 2013 and 2016. In 2007 and 2013, the regulation about the individual retirement system contributions that companies and various establishments pay in the name of their employees was regulated, in the year 2012, the tax stimulations provided with the cut from the tax assessment was removed and the state contribution system started, in 2016, guidelines about including the employees automatically in a retirement plan by their employers were regulated. Individual retirement system is primarily designed to integrate social safety as part of the social safety reform. In addition, it is hoped that it serves many purposes like, increasing the domestic savings and thus creating source for investments, decreasing the public social safety burden, hence, ensuring financial discipline. But in Turkey, compared to OECD countries, participation ratio in private individual retirement system and the fund utilized in the system is in a really low level. Also Özel & Yalçın (2013), Eren & İleri (2015)'s simulations made under various scenarios pointed out that the state contribution system that came with the regulation in 2012, will effect new savings and capital stock in low level. Thereby, according to behavioral and institutional saving theories' assumptions, changes made in the individual retirement system will be increasing the benefits that the system will provide in macro and micro level. From the institutional theory perspective, the individual retirement system all by itself is especially by providing individuals with low income to save is an important regulation. 25% state contribution provides easy understanding, determines the annually gross minimal fee limitation limits. Also, from the behavioral perspective the state contribution share provided for 3, 6, 10 years and providing in 15%, 35%, 60% and %100 in retirement, making the private retirement systems mandatory, is thought of being effective on the individuals' saving will. Employers registering the contributions they made in the name of their employees as expenses will increase the employer contributions suitable to the life income hypothesis.

4. Conclusion

Considering the assumptions of Neo-classical, behavioral and institutional approaches about savings, revising the individual retirement system with complementary regulations, will increase the chance of the system in reaching its macro and micro objectives. Policies like giving financial education within individual retirement, developing private purposed saving programs like house or education, regulating different individual saving programs for participants with low/high income or participants with higher education or not, are proposed.

Keywords: Household Savings, Public Incentives, Individual Retirement Systems

JEL Codes: H2, H3, D14,

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Evaluation of Conciliation Institution, One of the Administrative Solutions of Tax Disputes, in connection with the Constitutional Taxation Principles

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1. Introduction

Conciliation, which is one of the administrative solutions of tax dispute, deals between tax administration and taxpayer on certain amount of tax and tax penalty (Öncel vd., 2015: 170). Conciliation, that is a peaceful solutions, has positive and negative aspects. When conciliation is examined in the context of constitutional taxation principles, we found that negatif aspects of the conciliation has more than positive aspects. We think that it is possible to reduce degrees of negative aspects of conciliation by making the detailed legal arrangement in administration has the power to appreciate (Sezer, 2015: 98). In this context we analyze the tax dispute institutions according to constitutional taxation principles (generality, equality, justice and legality) and suggest solutions.

2. Conciliation Institution in the Context of Constitutional Taxation Principles

2.1. Generality Principle and Conciliation

In the expression "Everyone is obliged to pay taxes according to their financial power, in order to meet the public expenses" as enshrined in Article 73/1 of the Constitution, the word "everyone" constitutes the generality principle. A fee waiver of up to 95% on average in tax penalties, ensured by the conciliation commissions, the tax administration representative in the executive body of the state, which is equipped with the bound authority in the taxation process, may mean that some people will not be taxed (Sezer, 2015: 96). In this respect, it can be said that the institution is contrary to the principle of generality.

2.2. Equality Principle and Conciliation

The principle of equality states that persons subject to the same taxation and who are in the same or similar situation in terms of tax-favorable conditions shall be subject to the same tax treatment (Turhan, 1998: 207). There are two dimensions of equality principle taken under provision in Article 10 of the Constitution; horizontal equality and vertical equality.

The manifestation of the horizontal equality principle on taxation is the provision of equality to persons who have the same statutory power (income, wealth and expenditure) by applying the

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same tax obligation (Susam, 2016: 240). One of the two individuals with the same payment power with regards to the conciliation authority, pays the tax fully within the framework of tax compliance without resorting to the conciliation institution, while the other person can greatly reduce the tax burden by making use of the conciliation institution.

The manifestation of vertical equality in taxation is that the taxpayers who are in different conditions are subject to different legal regimes and provisions (Öner, 2015: 53). That is, individuals who do not have the same paying power are subject to different tax obligations, and equality is established by more taxation of individuals with more payment power (Susam, 2016: 240). When examined in terms of the conciliation institution, the solvency of two individuals with different payment power applying to that institution should not directly affect the amount of bargaining.

2.3. Justice Principle and Reconciliation

The taxable justice principle, which also means taxation according to financial strength, is based on the taxation of people, based on their economic power and personal situation (Öncel vd., 2015: 52). When justice is mentioned in taxation, Adam Smith's justice, namely economic justice, is generally understood. That is, the provision of uniformity in the taxation means that those who are in the same economic situation are taxed the same, and those in different situations are taxed in different forms (Şen ve Sağbaşı, 2016: 230). It is a fact that separation criteria (different taxation of capital and labor income) and ability-to-pay (income, expenditure and wealth) criteria, which are taken as basis for the provision of tax justice, are not taken as basis in the reconciliation meeting.

Because out of the conciliation meeting of the individuals with two different payment powers, different amounts can come out in the will of the reconciliation commission representing the tax administration. Therefore, leaving the content of bargaining which does not have a legal regulation to the discretionary authority of the administration is an objectionable practice in terms of justice in taxation.

2.4. The Principle of Law and Conciliation

As enshrined in Article 73/3 of the Constitution; "Taxes, duties, fees and similar financial obligations are brought into existence, modified and abolished by law. According to the said provision, the legislative body to introduce, change and abolish the tax is the Parliament.

In terms of post assessment conciliation, the amount of tax-exempted amount is eliminated. In terms of conciliation before assessment, the amendment of the tax to be levied and/or the punishment to be imposed is dependent on the conciliation commission representing the tax authority.

The authority of the legislative power to introduce, to change and abolish the taxation, to be transferred to the executive body through the conciliation commissions in the context of the conciliation institution is contrary to the principle of tax legality and therefore the Constitution (Güneş, 2011:206-207).

3. Conclusion

Conciliation institution is a peaceful way of dialogue, in which the obligated is also introduced to administrative processes, and maintained without compromising the liability-administration relationship within the framework of mutual concessions (Gerçek, 2006: 123). There are also practical benefits such as rapid resolution of tax disputes, ensuring the legal security of the obligated, rapid collection of public receivables and without loss of value, reduced workload of the tax law system, and the prevention of taxpayers to lose labor and expenses during the judicial phase (procedural economy) (Yavaşlar, 2008: 310). In order for the conciliation institution to be left to the discretion of the administration, it is crucial in our opinion that an amendment is added to the constitution. In addition, in order to establish horizontal and vertical equality, and in order to be able to determine the tax burden fairly and equally, it is necessary to determine the payment power of the obligated in every specific situation (Gerek & Aydın, 2010: 129). It seems possible to conclude that the concrete criteria of the conciliation commissions to be observed during the reconciliation negotiations, to be casuistically regulated within the framework of the bylaws or regulations, will provide a unity in implementation, and minimize the violation of the said constitutional principles.

Key Words: Tax, Tax Disputes, Conciliation, Constitutional Taxation Principles

JEL Code: K34, D63

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Energy Markets Regulation Applications and the Case of Turkey: Energy Market Regulatory Authority (EMRA)

Ali Fuat Uruş¹

1. Introduction

Globally experienced environmental and vital issues have increased the importance of energy markets and have made this market a sector that is strongly emphasized by the countries. Therefore, for the sake of correct functioning of the energy market, countries prefer regulatory applications and choose appropriate regulatory policies to overcome existing problems or deficiencies.

The aim of this study is to see the general processes and the regulatory activities of the energy markets, which is one of the most important sectors of our time, and to come up with suggestions for solutions to problems or deficiencies.

2. Turkey Energy Markets and Regulation

2.1. General History of Energy Market Regulation

Regulation of the energy sector in our country has started with the adoption of the Electricity Market Law No. 4828 in 2001 as a result of efforts on the harmonization with the European Union, and, it continued with the adoption of Natural Gas Market Law No. 4646, and the Petroleum Market Law. With the enactment of the Electricity Market Law, a radical reform process was initiated and a new Energy Market Regulatory Authority was set up in September 2002 in order to launch a competitive electricity market based on the EU norms. (Güvenek, 2009: 59, 61).

2.2. Electricity Market and Regulation

Although varying according to the countries, the electricity sector is a sector, which usually lacks competitive power, is bureaucratic and sensitive to political influences, has extreme employment and high central planning and regulation (Kulalı, 1997: 26).

There are two types of regulation in the electricity sector. The first type of regulation, which may also be referred to as technical regulation, is the regulation of the standards that will provide security and adaptation in the production, transmission and distribution of the service and the supervision of the market actors in this respect. This includes many issues from environmental pollution to energy supply security. The regulations related to this subject should be fulfilled by the specialized agencies familiar to the sector. Another type of regulation is economic regulation, which can be expressed as direct or indirect regulation of prices in markets where full competition is not achieved (Zenginobuz, 2000: 113).

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2.3. Natural Gas Market and Regulation

The natural gas entered Turkey for the first time in 1987 and started to be used in the same year. With the imports from Russia, natural gas has quickly been brought to an important place among the primary energy sources of the country (Ataay, 2009: 236).

The natural gas market has gained a legal framework as the Natural Gas Market Law No. 4646 entered into force in 2001. This law introduces regulations on savings such as transmission, distribution, storage, marketing and trade for the natural gas market. Law No. 4646 initiated the process of making this market a competitive market in order to deliver the natural gas, which has been started to be preferred among other energy sources, to the consumers in high quality, cheap and continuous way (Korkmaz, 2011: 59).

2.4. Oil Market and Regulation

The main characteristic of the oil industry is that, unlike electricity and natural gas, it is not a natural monopoly.

The fact that oil has a special legal status is related to its characteristics such as being a more strategic and basic input, the need for large investments, and the dominance of monopolistic and oligopolistic market structures all over the world (Ataay, 2009: 239).

The oil market is also regulated by the laws like other energy markets. Petroleum Market Law No. 5015 entered into force in 2003. This law includes the execution of all kinds of surveillance and control activities related to the oil market (Korkmaz, 2011: 62).

3. Energy Market Regulatory Authorities

3.1. International Energy Market Regulatory Authorities

Table 1 shows the national regulatory authorities that are leading the energy market in the international arena. We will only be able to give these regulatory authorities a summary in order to be able to see the general template.

Table 1. Energy Market Regulatory Authorities and Establishment Years

Country	Year of Establishment	Institution
ABD	1997	FERC (Federal Energy Regulatory Commission)
İngiltere	1999	OFGEM (Office of Gas and Electricity Markets)
Fransa	2000	CRE (Commission de regulation de L'Electricite)
İtalya	1995	Autorita (Autorita per L'Energia Elettrica e il Gas)
Türkiye	2001	EPDK (Enerji Piyasası Düzenleme Kurumu)

Source: Genç, 2013: 35.

3.2. Turkish Energy Market Regulatory Authority: EMRA

The reasons for the need for EMRA are structural problems such as privatization, competition, asymmetric information, consumer protection, EU directives (compliance policies) and disconnections among the institutions caused by the market structure, instability of investments in the electricity sector, and imbalances between production and distribution lines (Uğurlu, 2007: ss.75-82).

Board, established as EMRA decision-making body, has been assigned to fulfill the duties assigned to it by laws regulating electricity, natural gas, oil and LPG markets (Genç, 2013: 109). When doing these arrangements, they use functional features such as licensing, tariff regulation, monitoring and control, enforcement, dispute settlement and consultancy (Genç, 2013: 111).

4. General Evaluation of Energy Market Regulation for Turkey and Suggestions for Solution

Countries act according to three basic criteria while forming energy policies. These are ensuring that the energy costs are acceptable in the production economy, the energy is supplied from domestic sources to the extent possible, and the stability, continuity and prices of the externally supplied energy are provided with maximum stability in the unavoidable circumstances. Whether Turkey's current energy policies comply with these basic principles is a rather controversial issue. Dependence to the imported natural gas in the production of electric energy is undesirable for both cost and safety. However, our domestic resources, electricity energy costs based on hydraulic and coal are much lower than the costs of natural gas. Moreover, natural gas imports cause foreign exchange outflows, while domestic production contributes to the growth of the country's economy (Coşkun, 2004: 138).

Another issue that needs to be addressed at this point is that although there is a close relation between natural gas and petroleum markets, there have been differences between them in terms of difficulties and problems. In this case, both sectors must be in close contact and coordinate with each other, as well as be subject to separate regulation and different regulatory methods. For example, since natural gas is an energy source imported more than petroleum, and it costs more to the countries, it is important to take account of and take action when the regulations are in place (Viscusi et al., 1992: 593).

4. Conclusion

Taking all the above evaluations of Turkey's energy market regulation into consideration, it is necessary to consider this sector in the context of the "privatization-competition-regulation" trilemma and take various measures. In this context, it is important to go to regulation practices or regulatory policies in order to prevent privatization of the sector and market imbalances in the direction of competition in the market. The realization of this trilemma will be crucial in the development of the economic and fiscal sector or in moving it one step forward.

In order to enable the EMRA to implement the mechanisms of supervision, regulation and enforcement in such a way that it can be found in effective solutions, it is of utmost importance to establish rules, policies and practices in a cooperative manner with other closely related regulatory agencies such as the Competition Authority. It is also necessary to be more

coordinated with the relevant ministry (MENR), to restore market failures in the sector and to establish competition in the market.

Key Words: Public Economy, Regulation, Energy Sector, EMRA

JEL Codes: H39, H59, H89, I31

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The Need of Reform in the Inheritance and Succession Tax

Mehmet GÜNEŞ¹

1. Introduction

Inheritance and succession tax represents important public revenue among wealth taxes. Collected as a consequence of wealth transfer, with a share which does not even reach one percent in total tax revenues it is called as a “titular tax” in the literature.(BİLİCİ, 2014:188) It is considered as a system of taxes which includes various taxes.(KARAKOÇ, 1990:5) It was initially enacted in 1926 with the law numbered 797. The law dated 15.06.1959 and numbered 7338 which is currently in force has conserved until today the letter and spirit of the period in which it had been enacted. However it was unable to adapt itself to the requirements and commercial practices of the time. The internal revenue office which examines special fiscal cases and with a more technical expression, the public sector’s efficient, productive and economical implementation of the public services depend on abundant resources.

In the framework of voluntary compliance and a service approach focused on taxpayers, one of the aims of this study is to transform the taxation process of the inheritance and succession tax in to a process which is easy, productive, where fiscal anesthesia is highly effective and fiscal pressure is low. In the light of fiscal and extra fiscal functions of taxes, academic studies and tax legislation were reviewed; solution proposals to the issues detected and wishes were presented.

2. Subject of the Tax, Taxpayer, Event Initiating the Tax and Statute of Limitations

In the Inheritance and Succession Tax which depicts two important fiscal-sociological facts such as tax and death which cannot be avoided by the individuals as social beings the object of the tax are successions that occur gratuitously or through inheritance. The 1st article of the Law states “ the gratuitous succession by a person from another person through inheritance or in any way whatsoever of properties that belong to persons of Turkish nationality and properties that are in Turkey is subject to Inheritance and Succession Tax”. In this provision where the principles of personality and territoriality are simultaneously implemented, there is a gap concerning the assessment and declaration by persons of Turkish nationality concerning their properties abroad. The investigation to be performed by our organizations in foreign countries is of utmost importance. The article 5 states “ the taxpayer of the Inheritance and Succession Tax is the person who has acquired a property through inheritance or gratuitously.”

The taxpayer’s obligation starts on the matter stated by the taxpayer and the event giving rise to the tax which is the causing element of the administrative transaction. As tax assessment depends on the event giving rise to the tax according to the 20th article it is stated that the taxpayer’s obligation concerning properties that are not indicated in the declaration and in

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cases where a declaration has not been given shall start at the date the properties are detected by the administration. With this provision an unlimited lapse of time is foreseen from the perspective of properties that are excluded from the knowledge of the administration. The collection of the tax which becomes payable after its assessment shall be processed according to the provisions concerning “statute of limitations in tax collection” of the law on procedures of collection of public receivables numbered 6183 (AYDIN, 2009:197).

3. Exemption, Tax Base and Assessment

According to the article 4/b of the Inheritance and Succession Tax numbered 7338; It will be seen that the exceptions are also high. According to the Public finance management and Control law numbered; tax revenues waived due to exemption, exception and reduction are referred to as tax expenditures in the fiscal literature(BİLİCİ, 2014:55). Although stated by social motives, the high exemption limits represent a factor which is contradictory to optimal taxation. In the assessment of the tax base, the principle of valuing real properties by the value which constitutes the base of property tax causes it to be far from the real (current market) value and to remain under the exemption limits. The fact of failing to perform realistic value assessments of the real properties result in tax-related, economical and sociological problems(AYDIN, 2009:). The Municipalities’ failing to provide retrospective real property tax values increases the workload of Assessment Commissions which are already very busy. Therefore this fact requires an organization in the real estate sector. Assessment is performed in two ways as the initial assessment and final assessment.

4. Declaration Time Limit, Valuation Day, Rate and Counter Surety for Tax

The principle of non-contradiction is obviously compromised by the fact that the timeframe for the presentation of the declaration starts from the date of death according to the article 9 of the Inheritance and Succession Law numbered 7338 and the article 606 of the Civil Code on the other hand indicates that the renunciation of inheritance is possible within three months from the date of death. The article 11 of the Inheritance and Succession Law numbered 7338 states In making the assessment, tax values that are calculated too low erode the tax base. Efficient inspection mechanisms should step in to determine these values correctly and accountability must be increased. The authority and responsibility of the assessment commissions should be increased. Instead of tax value, current market values should be taken as basis.

In the article 575 of the Civil Code, the opening of the inheritance that is the successor’s acquiring the right to the inheritance emerges as of the date of death of the legator. Therefore in the declaration, the value that will prevail as of the occurrence day of death should be indicated in the declaration As it has been explained previously, in the event of a late declaration, an irregularity fine is imposed without any penalty for loss of tax. Declarations that are made late are subject to Olivera Tanzi effect. For properties that are not notified or notified later by taxpayers, tax loss or delay interest cannot be mentioned because tax obligation occurs in the time frame in which the declaration is given. Processing costs, bureaucracy and red tape becomes unacceptable for the taxpayer. We need to accelerate as much as possible the tax assessment process and ensure the transfer of tax to the treasury immediately.

The rates; the rates of the upper limits and lengths should be altered to the benefit of those who have less ability to pay. Turkey has lowest tax rates in the major countries of OECD. A tariff where tax bases are different in two independent cases should be created by also taking the degree of family relationship account. The security deposit is a provision aimed at transferring to the related treasury subdivisions the deductions made from taxpayers which have not presented an acknowledgement. It is a simple and taxpayer focused service since it is realized by collection at source without causing any friction between the taxpayer and the administration. The amounts withheld are deducted from the taxes calculated on the basis of declarations to be made by the taxpayers according to general provisions. In practice, they are deducted from the tax calculated. (ŞENYÜZ vd. 2016:380)

The payment; due to the fact that the law that allows the tax to be paid within 3 years requires full payment of the tax connects the acknowledgement to the full payment of the tax causes reactions in heirs or taxpayers who want to immediately dispose of the property. This field that is difficult to understand should be rearranged with reference to the understanding of taxpayer-focused service. **In Determination of Cash Content;** this damages the principle of confidence and declaration. Responsibility should be transferred to bank personnel and the requirements of the communications age should be observed.

5. Conclusion

In order to secure the uniformity, the law text must be reviewed satisfactorily and clearly. Social, technological and financial facts should be considered in this field.(Common databases ceilings must be established among institutions) The wealth taxes that may be a social policy tool within public revenues have great importance, so that the state apparatus can have a part as paternalistic "paternal state" and a fair tax burden can be established. The issues that are forgotten or not sufficiently clarified as required during the establishment of the law, could not respond to the developments in economic and social structure of society and fell behind today's requirements (ÖZZEYBEK, 1976:Praface).

In Article 73 of the Constitution, it is said: "Everyone is obliged to pay tax according to their financial power, ...". It is a contradiction that the wealth, one of the payment power indicators, is not included in the tax. Citizens will also have a positive awareness against the tax and state in the presence of a mechanism improving the sense of confidence to the state(ÖZ, 2004:). Just as the value of each production factor is undeniable in trying to reach full employment in economic life, the economic and social aspects of the taxes should not be ignored on the basis of a successful taxation policy. It should not be forgotten that the state is a valuable policy tool for the establishment of justice in the distribution of income and wealth of the poor and the rich. It is already certain that a psychologically-adopted tax will increase the productivity in this field together with the elimination and rehabilitation of the difficulties in question and with a successful application. It is certain that the productivity will concretely be ensured with an understanding of taxpayer-focused service, by simplifying the taxation process as a result of administrative transactions established with sound financial intelligence, administrative investigations and audits. Final taxation should be made at source as far as possible and must be free from the taxpayer reactions. We should establish a legislative system in which repentance and renovation provisions can be applied and ensure that the taxpayers submit their declarations by themselves. The registration should be made through the coordination committees so that no confusion can arise. Dissuasive sanctions that will remind the taxpayers of their duties and warn them should be established.

Key Words: Inheritance, Gift and Tax.

JEL Codes : H20 – H27

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Sin Tax as a Special Consumption Tax in Turkey: Examination of Number III List

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1. Introduction

States take measures to reduce the production and consumption of goods that have negative effects on people (Demerit Good), whereas they attempt to increase the consumption and production of goods that are necessary for public health (Merit Good) but not purchased enough. Sin tax, in this context, is a tax which is applied on demerit goods relatively higher than other goods, in order to lower their consumption and protect the public. In this study, after describing the sin tax, how the taxes applied on tobacco and alcohol between the years 2007 and 2016, subject to special consumption tax (SCT) with list III in Turkey affected the sales of tobacco and alcohol products.

2. The Concept of Sin Tax

Sin tax is taxation of goods and services that are harmful but legal; such as alcohol, tobacco, gambling, etc. (Carruthers, 2016: 2565-2566). Sin tax was first applied in 1971, in the USA, for both increasing public revenue and lowering the consumption of demerit goods (Talbot & Pienaar, 2012: 1281). The first application in Turkey was the “şıra resmi” back in Ottoman era. Other than “şıra resmi”, “Resm-i Beyiye”, a fee collected from alcoholic beverage sellers, and “Tönbeği Beyiyesi”, a fee collected from tobacco products sellers can be shown as examples of sin taxes applied in Turkey (Turan & Yurdakul, 2009: 4).

3. Sin Tax As a SCT and Examination of List III

SCT is a single step and narrow spectrum tax. Article 1 of the law defines its scope as a tax applied on goods export, production, or first acquisition by sale (Erdem, 2013: 49-50). SCT, in comparison with general consumption tax, has a narrower scope, and used mostly on goods with low social benefits, it would be appropriate to identify it as a sin tax. SCT in Turkey consists of four lists. This study examines list III that contains alcoholic drinks and tobacco products. List III of SCT Law No. 4760 consists of frames A

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and B. Frame A is on colas and alcoholic beverages, whereas frame B is on tobacco and tobacco products. Both frames are taken in consideration in this study. Tax rates on alcoholic beverages in last decade is shown by years in Table 1.

Table 1. Tax Rates and Domestic Sales Amounts of Alcoholic Between 2007-2016 in Turkey

Years	Alcoholic Drink	Proportional Tax (%)	Fixed Tax (TL)	Domestic Sales Amounts (Litre)
2007	Beer	63,3	0,2380	844.763.654
	Sparkling Wine	275,6	11,2120	399.097
	Vodka	275,6	41,4230	5.978.869
	Raki	275,6	35,8480	42.716.023
2008	Beer	63,3	0,2380	925.020.469
	Sparkling Wine	275,6	11,2120	460.547
	Vodka	275,6	41,4230	8.808.434
	Raki	275,6	35,8480	44.602.479
2009	Beer	63	0,26	923.508.131
	Sparkling Wine	0	11,25	236.136
	Vodka	0	40,00	10.365.555
	Raki	0	36,00	44.698.058
2010	Beer	63	0,35	921.500.292
	Sparkling Wine	0	12,4	252.761
	Vodka	0	44,00	11.781.288
	Raki	0	39,60	46.380.793
2011	Beer	63	0,44	925.564.164
	Sparkling Wine	0	16,12	432.641
	Vodka	0	57,2	15.296.042
	Raki	0	51,48	48.810.329
2012	Beer	63	0,53	998.823.252
	Sparkling Wine	0	19,82	826.771
	Vodka	0	69,30	15.114.819
	Raki	0	66	44.611.011
2013	Beer	63	0,62	878.912.869
	Sparkling Wine	0	23,19	641.885
	Vodka	0	81,3	14.908.720
	Raki	0	77	42.336.790
2014	Beer	63	0,74	943.199.212
	Sparkling Wine	0	26,83	627.896
	Vodka	0	94,09	16.000.653
	Raki	0	89,11	40.267.282
2015	Beer	63	0,85	908.197.848
	Sparkling Wine	0	31,02	413.440
	Vodka	0	110,48	14.130.725
	Raki	0	107,72	39.201.309
2016	Beer	63	1,03	900.341.561
	Sparkling Wine	0	37,63	488.622
	Vodka	0	134,03	11.243.141
	Raki	0	130,68	35.447.822

Source: GİB& TAPDK (2016).

Examining table 1, it can be observed that proportional tax on beer remains the same while fixed tax keeps increasing. Except the years 2013, 2015, and 2016, domestic

sales of beer is increasing. With the Cabinet Decree in 2009, a remarkable development in the proportion of sparkling wine, vodka and raki relative proportions has been developed. Sales of sparkling wine and raki kept increasing the following three to four years. Meanwhile, there is a perpetual rise in fixed taxes on wine and raki. Despite the seasonal increase on domestic raki sales, 2016 sales numbers are relatively low comparing to 2007. For vodka, it can be said that there is a consistent rise in fixed taxes except for the year 2009, despite varying sales through the years. In general, it can be sad that despite the increase on rates, sales kept increasing. Consequently, increasing the SCT can not be considered efficacious. Tax rates on cigarettes and domestic sales amounts are given in Table 2.

Table 2. Tax Rates and Domestic Sales Amounts of Cigarettes Between 2007-2016 in Turkey

Years	Proportional Tax (%)	Minumum Fixed Tax (TL)	Fixed Tax (TL)	Domestic Sales Amounts (BillionNumber)
2007	58	-	0,0700	107,45
2008	58	-	0,0775	107,86
2009	58	0,0775	-	107,55
2010	63	0,1325	-	93,35
2011	63	0,1325	-	91,22
2012	65	0,1325	-	99,26
2013	65,25	0,1325	-	91,66
2014	65,25	0,1875	0,13	94,68
2015	65,25	0,1971	0,1866	103,21
2016	65,25	0,2210	0,2468	105,48

Source: GiB & TAPDK (2016).

Examining taxes on cigarettes, an increase on both fixed and proportional taxes can be observed throughout the years. Relative rise of SCT on cigarette was 63% with a Cabinet Decree dated 29.12.2009. It can be deemed a successful use of sin tax with 100% Smokeless Air Zone implementation a year after. Cigarette consumption in this period has fell by 14,2 billion to 93,35 billion. The decline of cigarette consumption is observed to continue in 2011. With the Cabinet Decree on 21.10.2011, tax on cigarettes was 65% until 31.12.2012. Because of an expected increase in rates, cigarette consumption in 2013 had increased by 8,04 billion to 99,26 billion. It can be seen that, with exceptions, a rise in tax rates does not directly affect cigarette consumption. However, comparing years 2014 and 2016 sales, it can be seen that while the proportional tax rates remain stable, consumption has risen by 10,8 billion. In general, despite the belief that increase in sin tax reduces cigarette consumption, it is more likely as a result of the application Smokeless Air Zone. Hence, an increase can be seen in consumption in other goods despite the rise of tax rates. Thus, it can be said that sin tax is not effective on cigarette consumption.

4. Conclusion

In Turkey's point of view, SCT is deemed to be a form of sin tax. In Turkey when decade, which includes the years between 2007 and 2016, observed it is seen that there is increase in amount of fixed tax and proportional tax rate on alcoholic beverage and tobacco. It can be said that these increases did not effect alcoholic beverages sales. Because although there is an increase tax rates and amount, the decrease in consumption alcoholic beverages can not be seen as a significant change. But increase of tax on tobacco and espically implementation of Smokeless Air Zone policy after 2009 provided a significant decrease on tobacco consumption. In general, it can be concluded that sin tax practice can not be successful in terms of alcoholic beverages and cigarettes. As a coclusion from this that the increase in tax rates alone is not sufficient in reducing demand.

KeyWords: Sin Tax, Special Consumption Tax, Demerit Goods.

Jel Codes: H20, H27, H41.

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Enhancing the Shariah Governance Framework for Malaysian IFIs Through Effective Management Strategies

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1. Introduction

The Shariah Governance Framework (SGF) in Malaysia has approached its fifth year of implementation by Malaysian Islamic Financial Institutions (IFIs). In ensuring its continuous effectiveness as well as in enhancing the governance robustness, any existing gaps must be tackled and resolved proficiently. Among the gaps recorded in the previous literatures directed to various areas such as the commitment of Shariah Governance body or management team towards its governance, Shariah Committee (SC) portfolio, competency, regulatory framework and so forth. This research paper explores the practical adoption which could be applied through theoretical analysis and viable recommendation for further enhancement of the SGF by all management teams in the IFIs. In complementing this study, a set of questionnaires is distributed to some selected group of staff in a Takaful Operator (TO) in Malaysia to gauge their understanding of the subject matter.

2. Literature Review

Literature review in this paper deliberates three (3) main sub topics which are valuable in supporting the study. They are the management in the Malaysian Shariah Governance Framework, Theories related to Management and factors leading to Effective Management. There are various definitions of management recorded in previous studies. Howell & Costley (2001), explains that management is all about “doing things right” in clarifying its distinction from the meaning of leadership. Management, as defined by Olum (2004) is “the art, or science, of achieving goals through people. Essentially, management entails the acquisition of managerial competence and effectiveness in the following key areas: problem solving, administration, human resource management and organizational leadership”. Back to the case in point at hand, SGF emphasizes the work of management in delivering their level best for any IFI that appoints them.

At this juncture, analysing the current state of Shariah governance practice is crucially important. Numerous studies had focused on the gaps and challenges faced by IFIs in maintaining the overall Shariah compliance environment. Those challenges have been

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spread into various angles of governance side. Grassa (2013) emphasized on the Shariah supervisory issue and his exploration on the relevant gaps with regards to the subject matter. Ismail & Razak (2014) revealed that on the loophole in relations to Shariah functions within IFI which require for an amicable solution. On another note, Hasan (2014) has conducted his empirical research by discovering all pertinent issues involving Shariah governance practice within the industry. He reiterated on the list of gaps and weaknesses which need to be solved improved in allowing a continuous sound Islamic finance system. One of the most important issues highlighted was involving management within IFIs.

Secondly, as a part of strategies in enhancing the SGF through effective management, it is worth to discover some relevant theories on management. Some renowned theories in supporting this deliberation are “The Path-Goal Theory, The Situational Leadership Theory and The Multiple Linkage Model”. Thirdly, indeed that effective management which includes managing people and resources is vital in achieving competitive advantage for any organization. From various sources reconsidered, Pfeffer (1995) had summarized thirteen (13) factors which contribute to effective management. In the light of this discussion, only five (5) key factors are selected for analysis and exploration within the ambit of SGF. Those factors are Employment Security, Selectivity in Recruiting, High Wages, Information Sharing, Training and Skill Development.

3. Methodology

3.1. Research Design

For research design, the questions formulated for this survey is based on three (3) themes which are relevant to this study. Theme one (1) of this survey is the evaluation of TO’s management and communication. It is followed by theme two (2) which is to examine the role of management within TO. Last but not least, the final theme deals with the identification factors which lead to effective management.

3.2. Population and Sample

In term of population and sample, there were 50 survey questionnaires were distributed to various level of staff in a Takaful Operator (TO) which is based in Malaysia.

3.3. Data Analysis

The respondents were majority of female staff by percentage of 71.8%. The awareness level of TO’s organizational structure and relevant applicable laws are good and encouraging. Basically, most of the respondents have chosen to agree the TO’s management has demonstrated effective organizational accountability, communicating effectively with other organs of Shariah governance which reflected 71.8%. It was agreed by 59.9% of respondents that the management done a proper

identification and evaluation its TO's exposure to Non-compliance to Shariah risk which is seen to be crucial for IFI in Malaysia.

In evaluating the role of TO's management, some list of roles as prescribed in the SGF has been adopted to ensure the targeting objective is achieved. According to the survey result, it could be concluded that most of respondents agreed that the management played their roles as stipulated by regulatory authority as well as internal organizational arrangement. Most of respondents were of the view that TO's management plays critical role in developing takaful products and campaigns. This is represented by 69.2% of agreed respondents.

Last but not least, under the third theme, factors leading to effective management has been analyzed. Based on the response gathered, respondents are of the view that the most important factors for this matter are internal & external communication as well as integrated of both Shariah and corporate governance. Both of these factors were represented by 28.2% of response. It is quite interesting to note that 30.8% respondents had opined that the employment security is least important for their institution.

4. Conclusion

The response and effect of this study is valuable for future research of the similar area. The respondents had responded in a day to five (5) working days. However, this outcome has provided the researchers a positive insight in continuing further exploration of this study for the remaining 10 TOs which are currently operating in Malaysia. Realizing the need to increase the accuracy of result, triangulation method is worth to consider. The most suitable method is semi-structured interview with TOs' top management or executive committee.

Based on this survey, some significant findings could be summarized are:

- 1) In overall, the management of Malaysian IFIs including TO that is espoused by Shariah principles and precepts is classified as effective. In fact, this matter has been duly acknowledged by their staff accordingly.
- 2) The management of Malaysian TOs basically adhere to the relevant rules and regulations related to IFIs in ensuring full compliance.
- 3) Effective and efficient organization needs to be embedded with a strong rapport between top management and other level of subordinates. This synergy simultaneously builds a robust governance for organization especially in Islamic finance area.

Key Words: Shariah Governance Framework (SGF), Effective Management, Islamic Financial Institutions (IFIs), Malaysian Takaful Operators (TOs)

JEL Codes: L2,O16

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The Relationship Between Institutions and Economic Growth: The Case of Turkey

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1. Introduction

Institutions include the traditions, customs, constitution, law etc. (informal and formal rules) of the societies; also reflect the cultural structures of the society to which they belong. Recent studies show that institutions also play an important role in the economic, social and political development of countries. In other words, some countries are experiencing a bad economic performance while some countries are developing due to the institutional structure leading to economic development. As a result, there are differences in economic performance between countries, and so economic growth or development occurs at different levels.

The purpose of this study is to investigate the relationship between institutions and economic growth. Accordingly, institutions and economic growth were analyzed for Turkey by using fully modified least squares (FMOLS) method for the period of 1972-2015 years.

2. Relationship Between Institutions and Economic Growth

Institutional economics is a current of thought that emerged in the late nineteenth century and pioneered by Thorstein Veblen, John R. Commons and Wesley C. Mitchell. Institutional economics has mediated a significant development in terms of highlighting the idea that institutions should be kept on the frontline to explain economic developments.

According to Veblen, who is the first to come to mind when it comes to institutional economics and is regarded as the pioneer of institutional economics, institutions are the thought patterns of the habits that have settled in people in general (Sowell, 1967: 189). Wesley Clair Mitchell describes the institution as social habits that are significantly accepted and extremely customary (Neale, 1987: 1178). John Rogers Commons states that institutional economics is called as "economic behavior" which has several characteristics and cannot be described but is descriptive (Commons, 1931: 648).

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Douglass North is of the opinion that institutions eliminate uncertainty in daily life and ensure that the individuals make the choice or are restricted via formal and informal rules. The institutional constraints showing that which activities individuals can or cannot do emerge thanks to these rules (North, 2002: 9-12). Formal rules consist of constitutions, laws, property rights, contracts, sanctions, statutes, general law and regulations. Informal rules form from customs arising as a result of regularly repeated human interactions, and from socially accepted norms of behavior such as traditions and taboos, and from behavioral limitations that are inherent.

The recent institutional economics approach has led the examination the current relationship between the institutional framework and economic performance. As a result of the numerous studies carried out in this area, a common view has been reached and it has emerged that different institutions occur different economic performances (Gagliardi, 2008: 417).

3. Dataset and methodology

The variables representing the institutional structures are economic freedom and political rights. Economic freedom index sorts countries by freedom levels from 1 to 10. 1 and 10 shows that the worst and the best freedom level, respectively. Political rights index ranges from 1 to 7, which shows the best and the worst political rights levels, respectively. Political rights variable is transformed by reversing the order of the countries and rescale between 1 and 10 in order to provide convenience in interpretation. Fixed capital formation and national expenditures variables are included in the model as an indicator of the economic situation. The descriptions of these variables and their sources are reported in Table 1.

In order to check the stationarity of variables, it is used Augmented Dickey-Fuller and Philips-Perron tests. After that, it is detected by using Johansen cointegration test whether the long-run relationships exist between variables. Finally, it is estimated the coefficients of the cointegration model via FMOLS method.

Table 1. The variables used in the analysis and their sources

Variables	Sources
GDP: GDP growth (annual %)	The World Bank
economic: Economic Freedom Summary Index (between 1 and 10)	Fraser Institute
politic: (8-the average of Political Rights and Civil Liberties)*10/7 (between 1 and 10)	Freedom House
capital: Gross fixed capital formation (% of GDP)	The World Bank
expenditure: Gross national expenditure (% of GDP)	The World Bank

4. Empirical Results

It is found that **GDP** and **expenditure** variables are stationary in level; **economic**, **politic** and **capital** variables are stationary in first differences. So, **economic**, **politic** and **capital** variables are used in the first differences in the rest of the analysis. It is

determined that there are long-term relationships between these five variables in consequence of the cointegration test. Table 2 shows that there exist at least four cointegration relationships as a result of Johansen cointegration test.

Table 2. The result of Johansen cointegration test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	Critical Value	Probability
None *	0.6783	118.7805	69.8189	0.0000
At most 1 *	0.5065	72.2821	47.8561	0.0001
At most 2 *	0.4206	43.3262	29.7971	0.0008
At most 3 *	0.2877	20.9487	15.4947	0.0068
At most 4 *	0.1578	7.0406	3.8415	0.0080

economic, capital and **expenditure** variables are significant and have positive relationships with GDP. **politic** variable is significant at %11 level, and has positive relationship with GDP, as well. Table 3 presents the results of FMOLS.

Table 3. The result of FMOLS

Variable	Coefficient	Standard Error	t-Statistic	Probability
Δ economic	1.1640	0.1793	6.4922	0.0000
Δ politic	2.3180	1.4080	1.6463	0.1082
Δ capital	1.2058	0.4961	2.4305	0.0200
expenditure	0.3610	0.1511	2.3893	0.0221
constant	-33.3660	15.6078	-2.1378	0.0392

Note: Δ shows that the first differences of the related variables.

5. Conclusion

In this study the relationship between institutional structure and economic growth has been investigated for the sample of Turkey. It has been determined that there is a long-term relationship between the variables used and the institutional structure. It is found that there exists the relationship between economic growth, economic freedom, and political rights in this study. According to the findings obtained in the study, the result is that the institutional structure is affected both by the economic variables and by the economic performance of the country. This finding supports that institutional structure has an important role in economic performance. This result also indicates how important the policies to be implemented are for the economic growth-institutional structure relation. It can be interpreted that better economic performance can be obtained in the long term by further improving the institutional structures such as fundamental rights and freedoms in Turkey.

Key Words: Economic growth, Institutions, Cointegration

JEL Codes: C32, D02, O43

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An Assessment of the United Kingdom's Role in the EU Budget on the Verge of Brexit

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1. Introduction

We would not be mistaken to say that the most obvious indication of the supra-national, or even partly federative, structure of the European Union is that the EU have a budget apart from the compulsory and voluntary donations from the member states. The EU budget has grown steadily since the emergence of the EU, with the exception of the year 2017, and today it has reached 157.9 billion euros (Bloomberght, 2016).

Our work is based on an analysis of the contributions of the UK, France, and Germany to the EU budget and the payments they receive from the EU budget since 2007. The net contribution made by the largest three economies in EU will be studied and possible effects of Brexit on EU budget will be examined.

2. The Birth of the European Union and Brexit

The European integration process began after the Second World War in order to prevent a new war. This initiative basically developed over two different models and then merged to construct its current structure.

Following the enlargement, European Union began to ensure legal integration and strengthen supranational structure with various agreements. (Bilici, 2010: 49) The European Union is relatively experienced about solving the problems of European Union that are related to enlargement process. However, how to overcome the problems that the shrinkage will create is a whole new phenomenon and we will see together how the EU will react.

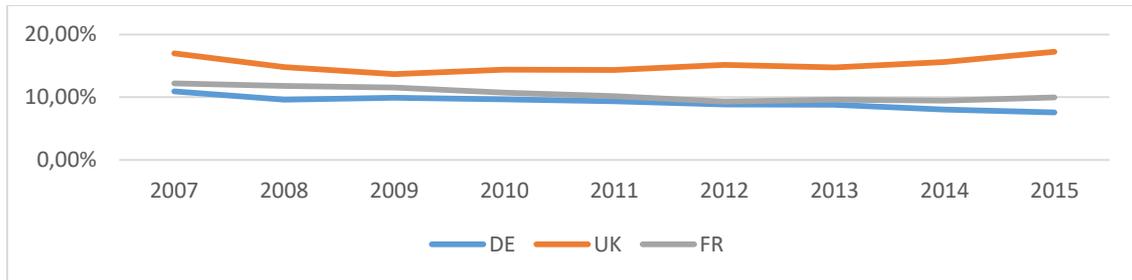
3. Brexit and European Union Budget

In terms of the payments made to member states by EU, UK ranked first to have the largest share among other member states between 2007 and 2015. After 2009, the imbalances observed to become deteriorated. In 2015, this imbalance peaked by UK having 17.24% of the total payments by EU where the second-ranked France gets only almost half of this amount (9.96%). Germany left considerably behind UK and France to get 7.58% of total payments by EU at 2015.

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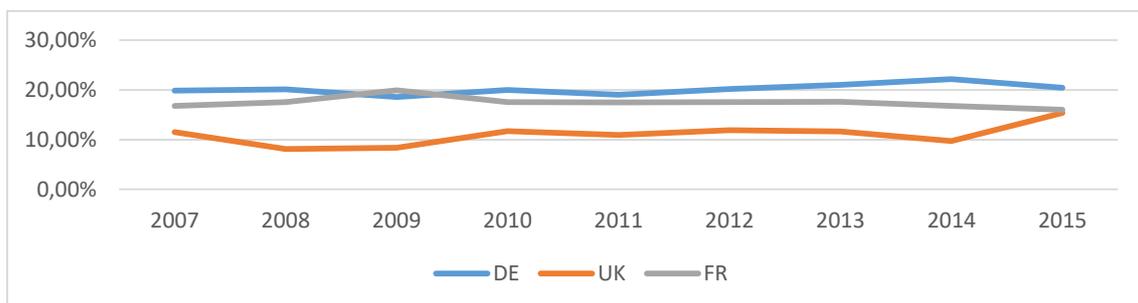
Graph 1: Share of Payments Made by EU to Selected Countries to Total Payments Made by EU



Source: Authors' compilation from European Commission European Union budget data (European Commission, 2016).

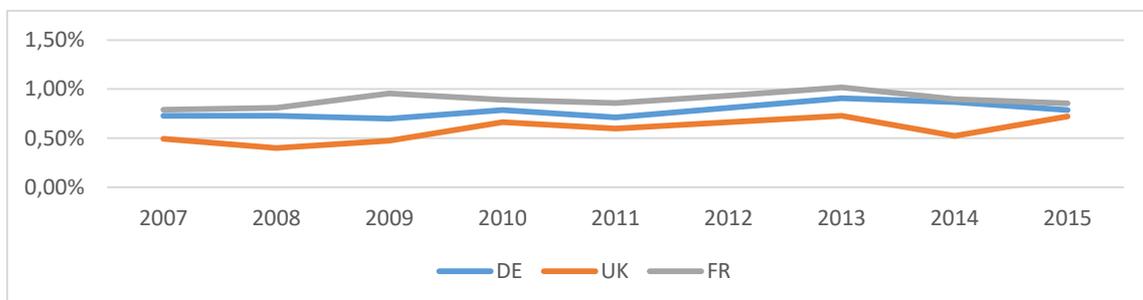
When we look at the contribution of the countries to the EU budget, we see that the first 3 countries have not changed. Apart from France being the most contributing country in 2009, Germany was always in the first place while France was the second most contributing country. At this point, the UK was the third country, although it varies proportionally.

Graph 2: Share of Selected Countries' Payment to EU Budget to the Total Payments Made to EU



Source: Authors' compilation from European Commission European Union budget data (European Commission, 2016).

Graph 3: Contributions of Selected Countries according to Their GNI



Source: Authors' compilation from European Commission European Union budget data (European Commission, 2016).

Finally, when we examine the extent countries contribute to the EU budget in terms of their GNI, it is clear that, although the United Kingdom is in line with our prior reviews to regularly rank in the third place, France's leadership and higher contribution than Germany served surprisingly. When the GNIs of France and the United Kingdom are so close, the contribution they make to GNIs is so far apart that we can only explain it after a detailed socio-political study.

Below table presents Contribution Return Ratio (henceforth CRR) based on our calculations. We compute the euro contribution made by the EU to member states for each euro paid by the countries for EU budget. When we look at the results, we see that the newly-joining countries receive the largest share of the EU. Even Greece, which received the crisis aid, was not among the top three countries with the largest CRR, except for the year 2008. Latvia, Hungary, and Estonia are the countries that consistently rank among the top three where Slovakia began to take higher returns lately. The fact that the founder and the largest contributor countries can not get into this order and on the contrary, consistently remain at the bottom of the CRR rankings shows that there may be justice in the criticism of the United Kingdom.

In particular, countries with pre-enlargement EU membership, except Belgium and Luxemburg, have always received a share under the average, and for most of these countries, the CRR is below 1 for most of these countries. We can observe that we that the Netherlands, Sweden, the UK, and Germany have the lowest CRR continuously. Italy and Denmark ranked among the bottom three only one year, at 2008. But, these countries have never been gainer countries since their CRR have always remained below one for the entire period we examined.

Table 1: Top 3 Countries with Lowest and Highest Contribution Return Ratio

	2007	2008	2009	2010	2011	2012	2013	2014	2015
BE	2.114	2.173	1.738	1.866	2.032	1.913	1.834	1.925	1.883
BG	2.572	3.502	2.907	3.941	3.199	4.670	4.675	5.585	6.436
CZ	1.742	2.053	2.442	2.611	2.072	3.246	3.386	3.345	5.379
DK	0.767	0.795	0.601	0.736	0.695	0.603	0.551	0.683	0.698
DE	0.672	0.593	0.667	0.571	0.617	0.537	0.500	0.445	0.454
EE	2.816	2.893	5.328	6.457	3.693	6.215	5.115	3.746	2.395
IE	1.576	1.492	1.015	1.709	1.439	1.629	1.233	1.097	1.289
EL	3.021	4.059	2.432	2.744	3.710	3.778	4.021	3.884	5.151
ES	1.497	1.378	1.142	1.476	1.377	1.476	1.325	1.156	1.561
FR	0.888	0.834	0.724	0.721	0.729	0.651	0.651	0.689	0.761
IT	0.917	0.764	0.674	0.695	0.669	0.731	0.797	0.744	0.867
CY	1.024	0.965	1.045	1.126	1.146	0.937	1.336	1.911	0.959
LV	4.015	3.273	3.602	5.330	5.702	5.762	4.282	4.351	4.768
LT	4.628	4.215	6.350	6.963	6.420	6.245	5.384	5.886	2.777
LU	4.541	5.763	5.267	6.255	5.554	5.782	5.147	7.384	4.709
HU	3.197	2.402	4.373	4.232	6.373	5.023	6.422	7.436	5.952
MT	1.976	1.840	1.309	2.186	2.401	2.384	2.240	3.882	1.454
NL	0.433	0.489	1.145	0.555	0.525	0.509	0.477	0.315	0.410
AT	0.792	0.892	0.841	0.740	0.751	0.671	0.615	0.584	0.707
PL	3.152	2.528	3.264	3.541	4.474	4.464	4.224	4.944	3.593
PT	2.950	3.091	2.452	2.555	2.948	4.124	3.671	3.020	1.698
RO	1.722	2.620	2.423	2.224	2.383	2.598	4.062	4.393	4.955
SI	1.409	1.433	1.718	2.362	2.591	2.794	2.210	3.496	2.759
SK	2.525	2.570	1.899	3.527	3.098	3.539	2.840	2.670	6.143
FI	0.961	0.856	0.711	0.831	0.717	0.711	0.737	0.598	0.769
SE	0.670	0.529	0.978	0.586	0.613	0.476	0.441	0.442	0.418
UK	0.689	0.960	0.793	0.555	0.583	0.515	0.435	0.616	0.410

Source: Authors' calculation and compilation from European Commission European Union budget data. (European Commission, 2016).

4. Result

When we distinguish and analyze the 3 biggest economies in the EU from others, the Brexit decision of the United Kingdom may seem irrational since the UK is the country with the least proportional expenditure, the least proportional contribution according to its national income but the most paid by EU in comparison with Germany and France. However, when our calculation of CRR is considered, the United Kingdom diverges from the other two major economies, as a matter of fact, it is the most disadvantaged country among the three countries.

As of 2010, when the year 2014 is excluded, CRR is the lowest among these three countries. But even this figure may not be a reasonable cause for Brexit alone. Because Sweden and the Netherlands CRR are the two lowest countries almost without exception. The Netherlands is the most disadvantaged country in the last 9 years. However, they are more committed to the EU than to the United Kingdom.

Keywords: Brexit, EU Budget, Comparative Analysis

JEL Codes: F02, P52

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Increasing Efficiency in Public Expenditures: On-the-Job Training for Universities

Sinan Ataer¹

Müge Yetkin Ataer²

1. Introduction

Public expenditures are inevitable for some cases. In fact, some areas such as public employment expenditures, amounts are intended to be increased year by year. Because in the developing countries, employment in public sector may be seen as a solution for decreasing unemployment rates.

Education economics is an entirely arguable subject. Financing methods of higher education is a rising question. However, the existence of state universities creates necessity of public employment. State universities' employees increasing in amount, because of increasing demand to higher education and increasing student numbers. Beside facilities and buildings, education technologies and administrative costs, academic personnel costs occupy a serious place.

Since the public expenditures for employment are fixed, performance and productivity of employees can be increased with no additional cost. On-the-job training is one of the most efficient ways to increase productivity, performance and contributing the total quality in the state universities.

In this study, we aim to show the necessity of on-the-job trainings for university employee's, especially for research assistant who are in the start line of their career.

2. Current Expenditures

Current expenditures are known as consumption expenditures of public sector. The effects of current expenditures are seen in short-term. Beside consumptions for nondurable goods, administrative costs and employees' salaries are classified under the current expenditures.

2.1. Development Currents

Education and health expenditures are seen as development expenditures because they are evaluated as contributing to the human capital (Afonso et. al., 2010: 372). This kind of expenditures increase the capacity of human capital. For that reason, general employees' salaries are determined as current expenditures while teacher or lecturer salaries are determined as development currents. Not only salaries, the

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administrative expenditures which are made for schools, universities and other educational institutions are counted as development expenditures.

Health expenditures as well as education expenditures, are counted as development currents.

2.2. Efficiency of Public Expenditures

In the developing countries such as Turkey, the increases in the amount of current expenditures, means the decreases in the public investment expenditures (Shelton,2007: 2258). This situation enables an increasing tax burden on citizens as well as next generations, disables the finance of productive investments (Kaya et. al., 2015:88).

The expenditures for education and health generally classified under the development currents but do they really effect development trends positively? After the new budgeting techniques with 5018 Law, performance measurements and strategic plans are conducted in the public institutions. State Universities as institutions which has special budgets, must be leading institutions for performance measurements.

Are the academic incentives sufficient for increasing the academic performance in the state universities? Reward system is a necessity but teaching how to increase the performance must have priority.

3. On-The-Job Training in State Universities

Under this chapter, successful administrative examples will be put forward. After 5018 Law, on-the-job trainings for administrative staff were conducted and successfully run in the state universities.

However, academic side of the employees of state universities are not educated about their jobs. Since they are the most educated groups of the society, they are determined as they do not need any on-the-job trainings. On the other hand, academic personnel's degrees as Msc, Ma or PhD, are about their specializations. Academic employees have heavy duties as researches, lectures, advising and similar works. But about their job, about being a research assistant or being a lecturer, there is no on-the-job training.

We will try to show the necessity of on-the-job trainings in the state universities directed to the core of their occupation. In order to prove this need, we will conduct a field survey directed to academic employees of the state universities.

3.1. What will be the effect of On-The-Job Trainings in State Universities?

Because of having fixed or increasing number of academic employee in the state universities, current expenditures are being fixed or increasing. The amount of salaries are fixed for every employee regardless to their performance. Of course there are

some quantitative methods for measuring the academic performance but the quality of works cannot be measured by these methods. If, on-the-job trainings could increase the average of performance or total quality even as 1%, it means the effectiveness of public expenditures increased.

4. Conclusion

Training of trainers, life-long learning or on-the-job trainings are modern necessities of public sector as well as private sector. Private sector, can conduct this type of educations effectively because of the incentive elements of free market. If they decrease their efficiency, they will be lost in the competitive environment. But in the public sector this type of necessities are hiding behind the existence and persistence of the state.

Today, Turkey need not only smaller public sector, in fact decreases the size of the state is not a solution for a more developed country. The emphasize must be shed on efficiency of existing state mechanisms. State universities must be leaders of society by starting from themselves.

In order to increase total quality and efficiency in the state universities, on-the-job trainings would be a good starting point. In this study, we aim to expose the need for On-The-Job Trainings by conducting our field survey and paving the way for increasing efficiency especially in development currents.

Key Words: Development Currents, On-The-Job Trainings, Efficiency in State Universities

JEL Codes: H5, H52

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A Discussion on Applicability of Balanced Budget

Burak Pirdal¹

1. Introduction

After the World War II, most of the countries experienced excessive budget deficits. Those which could not use the budget deficits and budget policies in an effective way experienced severe financial crises. As a conclusion, at the same era the concept balanced came to the fore again. Also, stagflation in 1970s increased the interest in balanced budget. However, most of the developed and developing countries still suffer from excessive budget deficits and debt burden. The aim of this study is to examine if the concept balanced budget is applicable or only a theoretical item. In this context the reasons of budget deficits and country experiences are examined.

2. On Balanced Budget and Its Applicability In Today's World

Today, the most important feature of budgets and hence budget deficits is that they are tools which governments use to reach their economic and fiscal policy goals. Governments use budget, tax and debt policies, as vital tools in the realization of economic and fiscal policy objectives such as ensuring justice in income distribution, achieving economic development, and ensuring efficiency in resource allocation. Especially after the World War II, with the understanding of the social welfare state, rise of the third-generation rights and increasing globalization the services the citizens expect from the state have expanded. All these reasons lead to the expansion of public expenditures. However, parallel to the expansion of public expenditures, public incomes have not increased at the same level, and the governments face excessive budget deficits. Especially in the last five decades, the level of public expenditures has increased considerably in all the countries of the world, but the increase in public incomes has not been able to fund these expenditures. Consequently, public sector deficits occurred. (Günay,2007)

On the other hand, governments with strict balanced budget restrictions may have to apply to stricter measures than the governments that does not have such restrictions. "Balanced budget rules require organizations to either limit their expenditures or increase their revenues (taxes) to ensure that revenues exceed expenses in any given fiscal period." (Costello and others,2012:2) In depression times tax incomes of governments reduce. And, governments committed to balanced budget may have to sell assets at lower prices, or delay payments to meet balanced budget requirements.²

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² http://www.bu.edu/questrom/files/2013/04/Anna-Costello_Seminar-Paper.pdf, access:06.01.2017

The table below indicates the 10-year general budget deficits of the countries. As can be seen from the table all of the countries either have budget surpluses or budget deficits. And most of the countries have budget deficits. There is no balanced budget.

Tablo-1: Data table for: General government deficit, Total, % of GDP, 2005 – 2015

<u>Location</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Australia	1,68	1,58	0,66	-3,87	-5,61	-4,49	-4,54	-2,91	-3,03	-2,55	-2,91
Austria	-2,55	-2,58	-1,39	-1,53	-5,39	-4,47	-2,59	-2,22	-1,37	-2,74	-1,04
Belgium	-2,57	0,21	0,06	-1,11	-5,39	-3,97	-4,11	-4,21	-3,02	-3,06	-2,52
Brazil						-2,96	-2,54	-2,32	-3,31	-5,88	
Canada	1,56	1,83	1,82	0,18	-3,89	-4,75	-3,32	-2,53	-1,87	-0,50	-1,32
Chile	5,33	7,61	7,96	4,79	-3,95	-0,03	1,49	0,82	-0,51	-1,31	
China	-0,47	0,82	2,94	1,26	0,13	1,48	1,53	1,27	0,76	0,84	
Czech Republic	-3,11	-2,25	-0,69	-2,11	-5,51	-4,41	-2,72	-3,93	-1,25	-1,93	-0,63
Denmark	4,96	4,99	5,2	3,17	-2,80	-2,71	-2,06	-3,49	-1,00	1,43	-1,34
Estonia	1,12	2,91	2,72	-2,67	-2,18	0,19	1,16	-0,26	-0,17	0,68	0,13
Finland	2,59	3,93	3,13	4,18	-2,53	-2,61	-1,04	-2,18	-2,61	-3,16	-2,75
France	-3,17	-2,34	-2,54	-3,18	-7,16	-6,79	-5,10	-4,81	-4,04	-3,96	-3,51
Germany	-3,42	-1,72	0,19	-0,18	-3,23	-4,22	-0,96	-0,03	-0,19	0,29	0,69
Greece	-6,19	-5,95	-6,71	-10,18	-15,14	-11,20	-10,28	-8,84	-13,15	-3,60	-7,53
Hungary	-7,81	-9,32	-5,06	-3,63	-4,58	-4,52	-5,46	-2,31	-2,56	-2,08	-1,57
Iceland	4,48	5,87	4,92	-13,04	-9,68	-9,76	-5,59	-3,74	-1,84	-0,06	-0,83
Ireland	1,61	2,81	0,27	-6,98	-13,81	-32,12	-12,62	-7,97	-5,66	-3,73	-1,87
Israel	-4,01	-1,72	-0,66	-2,71	-5,59	-3,45	-2,75	-4,70	-3,96	-3,22	-2,06
Italy	-4,17	-3,59	-1,53	-2,69	-5,27	-4,25	-3,71	-2,93	-2,69	-2,99	-2,61
Japan	-4,81	-1,28	-2,09	-1,86	-8,84	-8,30	-8,81	-8,66	-7,68	-6,18	
Korea	1,55	2,33	4,24	2,34	-1,32	0,97	0,98	1,01	1,34	1,27	1,41
Latvia	-0,43	-0,61	-0,66	-4,12	-9,05	-8,48	-3,38	-0,83	-0,91	-1,56	-1,27
Luxembourg	0,08	1,06	4,2	3,36	-0,69	-0,66	0,52	0,35	0,96	1,46	1,55
Mexico	1,56	0,75	0,15	-0,17	-0,59	-0,59	-0,08	-0,13	0,22	-0,62	-0,59
Netherlands	-0,26	0,21	0,21	0,22	-5,43	-4,99	-4,29	-3,88	-2,37	-2,27	-1,89
New Zealand	4,54	5,07	4,29	0,50	-2,78	-7,04	-4,01	-2,12	-0,73	-0,12	
Norway	14,82	18,02	17,12	18,70	12,34	11,01	13,45	13,85	10,79	9,77	6,44
Poland	-3,96	-3,56	-1,85	-3,60	-7,25	-7,34	-4,82	-3,69	-4,05	-3,43	-2,56
Portugal	-6,19	-4,33	-3,01	-3,77	-9,81	-11,17	-7,38	-5,66	-4,84	-7,17	-4,36
Russia							3,08	1,96	-0,21	-1,05	
Slovak Republic	-2,88	-3,59	-1,95	-2,43	-7,80	-7,48	-4,28	-4,34	-2,72	-2,71	-2,71
Slovenia	-1,33	-1,20	-0,09	-1,42	-5,88	-5,64	-6,66	-4,10	-15,02	-5,04	-2,67
South Africa				-1,74	-3,85	-3,14	-2,95	-3,18	-3,28	-4,07	
Spain	1,21	2,2	2,00	-4,42	-10,96	-9,39	-9,61	-10,47	-7,01	-6,00	-5,13
Sweden	1,78	2,16	3,31	1,95	-0,73	-0,07	-0,19	-0,98	-1,39	-1,59	0,24
Switzerland	-1,18	0,31	0,93	2,05	0,76	0,34	0,76	0,25	-0,50	-0,30	1,07
Turkey		0,75	-1,52	-2,35	-6,51	-2,92	-0,80				
United Kingdom	-3,32	-2,74	-2,91	-4,88	-10,22	-9,56	-7,62	-8,27	-5,66	-5,77	-4,36
United States	-4,15	-2,97	-3,55	-7,02	-12,67	-12,01	-10,61	-8,86	-5,36	-4,80	-4,22

Resource:OECD,<https://data.oecd.org/gga/general-government-deficit.htm> , Access:24.02.2017

Countries experiences budget deficits due to economic, political, natural, social or structural reasons. Spain has huge deficits between 2009-2011 due to economic recession compared to other years, for instance. Ireland also experienced substantial budget deficit in the year 2010 due to crisis. The situation tells us that applicability of balanced budget in today's world is highly challenging.

4. Conclusion

Together with the changes in the state understanding, the understanding of the budget has also undergone significant changes. In time, balanced budgets policies have been left and imbalanced economies gained importance. Budgets have become politically motivated tools. In addition to financing public goods, services and meeting social needs; public expenditures and public revenues are now available to be instrument for reaching political goals. The result is budget deficit. Although different countries take different measures against budget deficits they are simply not successful enough.

A balanced budget occurs when the expenditures are equal to the revenues. But in today's globalized world it seems to be inapplicable. Budget policies are quite useful in coping with conjunctures. In conclusion the balanced budget is nothing but only a theoretical statement in today's world. In this context, a moderate budget deficit which used in an efficient way in reaching the desired targets sounds more logical.

Key Words: Balanced Budget, Budget Deficit, Budget Policy

JEL Codes: H60, H62, H69

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The Effect of Electronization on Tax Law in Tax Application

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Mehmet Yüce²

1. Introduction

With the fact called globalization the progress in science and technology led to an improvement in telecommunication in terms of transportation and communication. Also, the development and the widespread usage of internet and computer technologies have caused an intensive utilization of technology in the field of tax. This has led up to many new electronic practices in tax applications. The developed modern countries have firstly established their legal infrastructures and legislations as they passed through electronic applications from manual applications, and soon after they put them in to action by making detailed theoretical and practical plans. Namely, in order to prevent undesirable problems caused by electronic application they have developed demo applications and also produced simulations for the problems that may arise in legal legislation. In our country, electronic applications have gained momentum by making a very fast entrance. However the legal infrastructure and legislation in our country couldn't have been established healthy as well as electronization. Under these circumstances it has begun to be encountered that the principle of "taxation of taxes", which is the basic principles of taxation, is being tried to be stretched in electronic applications. In the meantime, in this study a possibility of making a comparison will be tried by summarizing the e-invoices, e-books and some other electronic financial applications of our country and some other countries.

2. Electronization Process in Tax Code

It is seen that with the development of electronic systems in the world and in Turkey, the states entered in to e-transformation. Parallel to this, in order to keep in step with the global economic and technological developments tax law has become a stage for many applications which are rapidly electronized by taking an "e" before them. This conversion encountered under this title will be handled by comparing the e-billing, e-book, e-archive, e-export with some countries.

2.1. E-Invoice and E- Financial Practices

In Turkey, e-application has been rapidly launched and maintained in many areas. As of yet, nearly 50% government institutions can completely work electronically within the context of e-state. Within the scope of this study, we will evaluate e-financial applications such as e-billing, e-book, e-archive, and e-export.

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2.1.1. E- Invoice Application

The e-invoice is a kind of electronic document that the world began to hear in the 2000's. The e-invoicing system which has been already implemented by many countries in the world started in our country with the first step of the "Electronic Invoice Registration System (EFKS)" which was the start step of the VUK, Circular No 33, dated 2008 and the e-invoice application. As the second step, with the purpose of establishing the consortium structure, the legislative work and technical studies required for the electronic procurement of the invoicing period were completed. Following this process, e-invoice has been introduced to the system by imposing the obligation of using e-invoices by the businesses that have certain criteria. The businesses included in the e-invoice application, started to make their records to electronic books by passing into e-book application which was the next step (Özdemir, 2016: 2).

In e-invoice application in Turkey there are two scenarios, namely the basic invoice scenario and the commercial invoice scenario. The basic rule is the agreement between the buyer and seller on the basic invoice or the commercial invoice. This agreement is not made through the system and not registered. Therefore, it is useful to determine the scenario in the agreement that the buyer and made between themselves. To choose the system that is most suitable for their own structures, for the taxpayers who have to move to the e-invoice system or will use this system optionally the Ministry of Finance offers three different options as portal method, special integration method and direct integration method (General Communique on Tax Procedure Law No. 397). While e-invoice application is being carried out by private service providers in Europe, as it is known it is implemented through Turkish Revenue Administration efatura.gov.tr portal in Turkey. In addition, the security and reliability of the messaging platform to be used in the transmission of electronic documents has been ensured by creating an Electronic Financial Seal Certificate (Hepaksaz, 2011: 65).

In the world e-invoice started to be used in the railway sector at the beginning of 1960s with EDI (Electronic Data Interchange) that provides an opportunity to transfer the encrypted data from one point to another (Doğan, 2013: 275). In time, these systems have developed and become to the present day. Also the legal systems and legislations have made a progress in this parallel. In Europe, Switzerland was the first country that used e-invoice in 2001. It is seen that regarding e-invoice there are different implementations between countries. For instance in Denmark, the e-invoice application compelled in public institutions has been released in the private sector in respect of format (Ceylan, 2013: 11). In Belgium and Austria, e-invoice application was regulated by the Value Added Tax Law (Croo, 2014: 1; Keifer, 2011: 38-51).

In Finland, e-invoice is implemented according to the provisions of the Accounting Act and has been recently developed by the Finnish Banks Association (Tieke, 2005: 4). Similar to in Finland, in Italy the Italian Banks Association is also leading the way in the establishment of the e-invoice system (Bellini, 2013: 325-336). Besides, in various countries such as Sweden, Germany, Spain, USA and Latin America countries a number of different arrangements have been encountered.

2.1.2. E-Book System

The e-book system is essentially the transition of book keeping on paper to electronic environment, with this application the obligation of keeping the records at the electronic environment has been imposed to the taxpayers. The ratification of the books will not be realized with this system, and the charter for the first month of the accounting period will be the opening approval and the charter for the last month will be the closing approval. In the e-book, it is not compulsory to make monthly or quarterly accounting closing

reflection records as it was an obligation in the previous paper books. Also the arrangement of opening and closing vouchers will continue as in the case of book keeping on paper. In e-book application, the accounting records of each month will be sent independently.

While uploading the e-book charter to Revenue Administration (GIB), definitely any month should be skipped. Even if there is no journal entry in that month, the book of the blank month must be stamped with the financial seal and uploaded to the GIB system. If it is not uploaded, the book for that month is considered as not kept and invalid. In this case, it is impossible to receive a book charter from GIB related to that month. In case of disruption, deletion, damage, failure of the records of the electronic books or emergencies, the electronic book keepers are obliged to notify the Revenue Administration within 15 days and to explain how to complete the records. When an evaluation is made in terms of the compliance of the e-state system with Tax Procedure Law (VUK), changing the periods related to book registration time, renewal applications with a Communiqué, constitute a contradiction to the legality principle. Also, by means of taking a charter from approval procedure, the Revenue Administration Department is the accreditation authority in terms of e-book. Regarding the correction of wrong records, although the provision that the wrongs can only be replaced by accounting denominations continues in terms of e-book, the application of drawing the mistake has been removed. Besides, while the accounting period is normally a calendar year, the 12-month provision in the e-book application has been changed as monthly.

2.1.3. E- Archive Invoice

E-Archive Application which was enforced by the General Communiqué of Tax Procedures Law No 433, is an application which includes the creation of the invoices, the preservation, presentation and reporting in an electronic environment in accordance with the standards determined by the Revenue Administration Department. Taxpayers who want to benefit from E-Archive Application must first be registered in e-invoice application. The taxpayers in the EFKS system are obliged to submit invoices to the taxpayers who are not registered to the e-Invoice Application within the scope of e-Archive Application, to send on paper, and to keep the second copy of the invoices electronically and to present them in case of a demand. After all, in the direction of the receiver's request, as long as using the e-invoice format and standard published in the internet address and by enclosing the printable image of the relevant invoice the in question taxpayers can also transmit the invoices that they made out within the scope of e-archive application electronically. In this case, there is no need to print the e-Archive Invoice. If the invoice of the sales to non-taxpayers is transmitted electronically, the paper output of this invoice should be given to the customer at the time of the delivery of the goods or service. In this case, print out should be signed sign by the seller or the authorized person. In order to take advantage of this possibility, it is obligatory to arrange the invoice of the goods on the delivery.

2.1.4. Export e-Invoice

The obligation of arranging export invoices as e-invoices is only a regulation for the export invoices attached to the Customs Declaration. It is not applicable for the export invoices attached to other documents (Free Zone Transaction Form etc.). As there is not sufficient mobility, export e-invoicing with portfolio method is not suitable.

3. Conclusion

With the transition to electronic financial applications, together with savings in time and expenses achieved by the taxpayers and administration, an increase in availability has been provided by giving an end to the working hour's limitation. In addition to the basic benefits of electronic financial applications, as there is no face to face relation between the taxpayers and tax office employees the risk of encountering problems arising from human relations such as "asking for bribery", "bad behaviour", "indifference" have been removed and this system is providing advantages in the removal of the risks (fire, flood, theft, etc.) for the documents stored as papers; also with the time stamping application it provides advantages to the taxpayers in respect of legal remedies in front of the administration.

In addition to this, with regard to the conformance of the tax payer to the process instead of an immediate penalizing, an "adaptation" period should be given to the taxpayer by introducing the electronic application with "demo's" and the penalizing should be performed in the repetition of the mistake. Electronic financial applications change very often. In order to comply with the amendments, a time should be given to the taxpayers. For example, when an e-book application guide is published, the changes must take place at the beginning of the next accounting period, not at the date of publication. In order to make the system work healthier, it is necessary to rewrite paper-based tax legislation.

Otherwise, the tax system which is already complicated will provide a basis for taxpayers to make more mistakes and increase the possibility of facing tax penalties. Taxpayers should not be abandoned in front of the software companies, and tax administrations should play a role in regulating and supervising the software market related to the electronic financial applications. In e-book applications, document type information is required. The document types are determined by the tax administration as 8 pieces. The sequence which is "1-Check, 2-Invoice ..." should be "1-Invoice ..." and the documents that are accepted as an invoice in Tax Procedure Law (VUK) should be performed instead of the documents which are not used in our country.

Keywords: E-state, E-financial applications, E-invoice, E-book, E-archive.

JEL Codes: K34, H20, P43.

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Submission of Books, Records and Documents Not Submitted During Tax Inspection to the Tax Judiciary Organs During Judgement Process

Yıldırım Taylar¹

1. Introduction

Turkish Tax System is based on the principle of documenting the taxable event and registration of this documentation in the books specified in the law within specified time limits. Purpose of this principle, also called as document and record principle, is to ensure supervision, inspection and identification of tax-related transactions of taxpayers and third parties in legal relations with the taxpayers, as well as estate, capital and account statuses and results of activities and accounts of the taxpayers.

The purpose of book and document method is to establish a system allowing determination of taxes and relevant accounts and statuses of taxpayers and third parties in relation with taxpayers by means of records and documentation. The aim of this system is to determine the true nature of taxable event with the help of books and documents. Since subject of proof in tax judgement is the taxable event, the books and documents serving as the means of determination of such events constitute the most important means of proof.

This study includes some assessments and determinations regarding whether books, documents and records which were not/could not be presented during tax examination can be presented to judiciary organs during judgement process or not, and recommends several solutions. In this scope, we shall firstly focus on the point where the action of failing to present books and documents occurs, and then we shall endeavour to explain whether presentation to judiciary authorities, subject of this study, is possible in the context of doctrine and judiciary practices.

2. Issues of Failure to Present Books and Documents to Tax Inspection

According to Article 359 of the Tax Procedural Law the act of concealment is defined as "*Failure to present records and documents to bodies authorised for tax inspection during inspection process despite establishing the existence of such books and documents by notary approval records or other means shall be deemed as concealment in practice of provisions of this paragraph.*" Failure to present books and documents is set out as an action requiring imprisonment penalty from 18 months to 3 years. In addition, a tax damage penalty in the amount of three times the tax assessment

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originating from this act of failure to present shall also be imposed. According to this provision, following conditions must occur for the act of failure to present to occur:

- a) The books and documents required to be kept, prepared or maintained in accord with the Tax Procedural Law being present and existence of such records and documents being established by notary approval record or by other means.
- b) The books and documents being demanded for purposes of tax inspection and these records and documents not being presented during this tax inspection. In our opinion the most frequently faced problem in practice is in regard of the point when the tax inspection is deemed to start and whether the act of failure to present happens before or after the process is legally started.
- c) Failure to present books and documents to bodies authorised for tax inspection.

3. Issues of the Present Books and Documents to Tax Judiciary Organs

How to decide on impositions and penalties in case books and documents which were not presented to inspecting bodies but being presented to judiciary authorities in scope of a lawsuit is in fact a subject of tax law that has not been clearly explained. This subject has not been analysed in detail in tax law doctrine and it is hard to say there is any unified opinion regarding this subject in decisions of the Council of State. Council of State decisions to date have judged each case by its own merits and have not brought any approach for permanent solution of this problem.

The general approach of the Council of State in this regard is that books and documents not presented to the inspecting body during inspection process can be considered if these are presented to the tax court. However, the decisions also state that the tax courts must decide regarding these books and documents after they are examined by the tax office.

On the other hand, a more recent decision of the Council of State states taking books and documents not presented during inspection into account will render tax inspection non-functional. According to Tax Procedure Law, failure to present of books is a reason of ex-officio tax assessment. The task of the tax court is limited to review legality of actions taken by administrative jurisdiction authorities. Therefore, it is not possible for tax offices to examine books and documents not presented during tax inspection process².

In our opinion, there is no obstruction in the way of having books and documents not presented to inspection bodies presented to tax courts and tax courts examining these records and documents on condition of referring to opinion of the tax offices. At this point it is not possible to agree with the opinion taking books and documents not presented during inspection into account will render tax inspection non-functional stated under the latest jurisprudence of the Council of State. As a matter of fact, the act of failure to present books and documents is accepted as an act of "concealment" and subjected to imprisonment penalty from 18 months to 3 years in accord with

² Dnş. VDDK. 26.12.2012 gün ve E. 2010/707, K. 2012/618, www.kazanci.com.tr).

Article 359 of the Tax Procedural Law. Later presentation of books and document shall not remove the concluded criminal act of tax evasion and the perpetrator shall be sentenced to limitation of freedoms due to crime of tax evasion. Therefore the penalty of limitation of freedoms contemplated against the act of failure to present (act of concealment of) books and documents eliminates the concern that tax inspection may become non-functional.

On the other hand, judgement process conducted by tax courts is directed towards determining legality of impositions and connected tax penalties (especially the tax damages penalty applied as three times the assessment) regarding the tax liability as a public financial obligation. Therefore, the purpose of judgement procedure in tax courts is essentially financial. As the subject of proof in tax law is the essential character of the taxable event then any kind of examination towards determining this essential character is in the scope of authority of tax courts.

In our opinion the assertion that records and documents presented later to tax court cannot be examined would be in contradiction of the right to legal remedies and the right to a fair trial. All bodies judged before tax courts and criminal courts have the right to defend themselves and use their right to submission of evidence for defence in scope of the right to a fair trial. In this scope, taxpayer or other responsible parties may request examination of records and documents which were not or could not be presented to tax inspection bodies for any reason to be examined by tax courts and even appeal authorities in scope of their right to legal remedies.

4. Conclusion

Books and documents not submitted in scope of tax inspection should be examined by tax judiciary organs. The assertion that books and documents presented later to tax court cannot be examined would be in contradiction of the right to legal remedies and the right to a fair trial. Later submission of books and documents does not remove the concluded criminal act of tax evasion (by concealment). Adjudication conducted by tax judiciary organs is directed towards determining the essential nature of the taxable event. Any judicial procedure aimed towards determination of the essential nature of the taxable event shall naturally contribute to the right to submission of evidence in scope of the right to a fair trial. Therefore we believe the Council of State decisions from before 2012 were more appropriate in this regard.

Key Words: Tax Law, Books-records and documents, Submission, Tax Inpection, Tax judiciary organs

JEL Codes: K34, H20

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Assessment the Compliance of the Recent Regulation Amendment to the Law in the Scope of Tax Inspection and Reflection on The Practice

Emre Akin¹

1. Introduction

The tax inspections are prosecuted in accordance with the appointments made by the relevant unit in charge of review.

In the made by assignments , duration of the inspections the scope and type , the frame of the examining is appointed (full and limited inspection) and the ones who are authorized to examine are submitted also the taxpayers are stated. With the relevant legislation, the scope of the tax inspection determined in this way will affect the duration of the tax inspection to be carried out, the size of the inspection, the intensity, about of the information and documents to be requested. However, this application which has been developed in line with the purpose of bringing about the distinction between full and limited scrutiny, loses sharpness with the last amendment of the Regulation and does not overlap with legal regulation.

In this study, how the tax inspection, which is expressed as a full and limited review, is divided in practice, how the change in the last regulation will affect the scope of the tax inspection, and the connection / adaptation of this change with the legal regulation will be assessment reference to the reason of the law and with the parliamentary negotiations and possible reflections to the examples and inspections.

2. The Full and Limited Review of Tax Inspection

Tax Law no.213 entitle of "Principles to be Followed in the Inspection" in article 140, it is said that " From the date of starting the sixth inspection, maximum one year is required for a full inspection, and if a limited inspection is made, the inspection is completed within a maximum of six months. If the inspection can not be completed within these periods, extra time may be demanded. " It can be understood from this provision, the full inspection is 1 year, The limited inspection will be completed for 6 months - except for the time periods.

This period is a legitimate period and if It is exclude of time, the fate of the tax inspection will be injured. Because of there are explanations that the Supreme Administrative Court will cease to be authorized as a legal inspection of an unfinished inspection will be disqualified in terms of its legal nature, and therefore the inspection of the tax inspection will not be conducted. But in the literature, there are some who advocated the vision that this is not the reason for the cancel.

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For a full and limited inspection of the law according to Law No. 6009, it is said that *“Two schemes are set out and the scope of these reviews is defined as a full or limited review of tax assessments with the proposed regulation”*. It is explained that in the Law design of opposition comedatary *“He reviews are divided into Full and Limited. Separating two taxpayers with full and limited taxation means narrowing the inspection authority of the taxpayers listed in Article 135 and acting in contradiction to the arrangement in the first place. The regulations in force require that the full and limited scope of the regulations be included in such a way that it does not give any indication of the scope and scope of the definitions.”*

On the other hand, in the first case of Law No. 6009 which makes these amendments, Article 134 of the Tax Law that it has been indicated additional *“Tax reviews are done in the form of full or limited reviews. A full inspection is a complete inspection of a calendar year or accounting period in terms of income or corporation tax, in order to investigate the correctness of the tax that must be paid before those subject to the inspection. A limited review is a limited review of a specific issue with the aim of investigating the correctness of the taxes to be paid to those subject to review.”* However, this provision has been removed in the afterwards assembly meetings.

In the third article entitled "Definitions" of the Regulation on the Procedures and Principles to be followed in Tax Inspection, *“Full review: A tax inspection which shall include all tax base elements of all kinds of works and transactions relating to one or more taxation periods on a tax payer in terms of one or more tax types:*

ğ) Limited review: It is explain that A tax assessment that is beyond the scope of the full inspection.”

The main point that should be emphasized in the full inspection definition is that all kinds of jobs and transactions of the tax payers are examined in such a way as to cover all the elements of the tax base.

2.1. Arrangement impersonation within the Scope of Tax Inspection with Regulation Amendment

In Article sixth of the Regulation on Procedures and Principles to be Followed in Tax inspection entitled *“Assignment of tax inspection task”*, An amendment to the regulation published in the official newspaper dated 25/10/2016 and numbered 29868 amended the regulation to precisely terminate the full inspection and the limited inspection.

In Article 6 of the regulation, It is changed that *“The tax inspection is made only in relation to the subject matter and the period specified in the review duty letter. No information or documents can be requested from the taxpayer for any matter not related to the subject and period of review.”* During the ongoing inspections, those who have been given the status inquiry will be informed in case of the determination of a matter which is required to be criticized on a different topic or period specified in the assignment letter. If a determination is made in the text of the appointment in the letter of appointment that it is necessary to write a report on the different types of tax not included in this article, this issue does not require a new assignment.

According to this amendment, if the matter to be examined is indicated in the inspection assignment letter, only this subject can be examined and only information and documents related to this subject will be demanded from the taxpayer. If the opinion that a tax inspection related to a different subject should be made, it is stated that the assignment should be requested separately. However, this provision states that it is essential to request information and documents from the taxpayer to make the determination; It will lose its validity if it can not be detected easily from external data.

In Article 134 of the tax procedure law, the provision *"to investigate, detect and provide the right of the taxpayer to pay for the purpose of the tax inspection"* is the source of the tax inspections. For this cause, it would not be contrary to the law to act with efficiency in terms of limited inspections; In full inspections, this law is not aimed at aim only if it is adhered to the subject, it is a regulation which is against the blood.

2.2. Existing Reflection in Practice

In the previous application of this amendment, a tax inspection being carried out under full review may be conducted in addition to the subject matter mentioned in the letter of appointment; It was possible that the inspection was completed in this context and mentioned in other reports not mentioned in the article, and the assessment could be proposed. Thus, as defined in the regulation, the taxpayer's all jobs and transactions could be examined. The limited review was done only on the basis of the matters specified in the appointment. However, with the amendment mentioned above, the limited review will be counted because all the inspections are limited by the fact that the inspection can not be carried out other than the subject mentioned in the letter of appointment and the information / documents can not be requested.

For example, within the scope of the limited tax inspection conducted for the VAT Refund, it was requested that the taxpayer should investigate whether or not the VAT refund that occurred during the taxpayers' related periods would be made. In this context, the review of the tax inspection will be carried out only if the scope is limited or full, but only on the basis of the return requested in the mandate. Except from this, it is not possible to carry out any transactions and write a report for the determinations made on the basis that the depreciation determined during the inspection of the accounts and records is contrary to the legislation. According to Article 6 of the Regulation, the inspection will be carried out only for the VAT invoice. For the irregularities determined due to depreciation, it shall be requested to notify the person who gives the inspection task and to make the assignment regarding this matter.

On the other hand, taking into account this example, it is observed that during the inspection made on the basis of VAT invoice, payments exceeding 8.000,00-TL (such as deductions related to exports, deductions and calculated VAT) Special irregularity penalty may be cut off because of not being done with institutions. However, if the payments for transactions other than VAT are not authenticated in this way, the

special irregularity penalty will not be incurred. Whether the scope of the tax inspection is limited or complete; This explanation is valid.

Here, with the amendment made in the Regulation, as well as this concrete case, even the determinations made directly are not evaluated within the scope of the investigation and the operations to be performed by the examining staff are restricted in order to correct the irregularities. Although a new appointment can be requested regarding these identified issues, This process will be unnecessarily prolonged and the bureaucracy will increase.

3. Conclusion

In the previous application, a full review was made to cover all work and operations independently of the task letter. However, an amendment to the Regulation was made on 25/10/2016 in order to strictly adhere to the articles in the assignment.

For this cause, although the distinction between full and limited review is formal, Scope did not actually stay. Because, according to Article 6 of the Regulation, even if it is a full inspection, it will be adhered to in the matter of assignment letter. The distinction between full and limited inspection, Tax procedure Law 140/6 (6 months / 1 year), just as it is included in the article. However, as mentioned, with the provision of the law establishing the division of the full / limited inspection, a period of time has been set in such a way that the full inspection will be longer than the more comprehensive one; Due to the fact that the current scope does not reflect such an aim, the relevant provision has also lost its justification. Therefore, the full and limited inspection must be regulated by law and regulation in such a way as to ensure that the tax assessment is made from the very beginning.

Key words: tax inspection, full inspection, limited inspection, scope of inspection, period of inspection

JEL Kodu:H20,H26,H29

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Vergi İncelemelerinde Uyulacak Usul ve Esaslar Hakkında Yönetmelik

A Review of Criminal Proceedings in terms of Failure to Submit Books and Documents

Serkan AĞAR¹

1. Introduction

Tax evasion is one of the biggest reasons for grey economy. Tax payers have reaction against taxes in various ways. Certainly, Tax evasion figures high among the reactions shown to taxes. Misdemeanor of failing to submit required documents is the type of most encountered files in connection with Tax evasion crimes before the criminal courts apart from the fact that it is a different type of crimes. Therefore, it has particular importance. Although the crime of Tax evasion in the form of failure to submit required documents is defined by only one sentence in Article 359 / a - 2 of the Tax Procedural Law (VUK), it must be reviewed by comparing the judicial awards and the provisions of the Tax Procedural Law (VUK) currently in force with the provisions of the Bill on Tax Proceedings by considering the theoretical and practical aspects in connection therewith.

2. Cases Which Are Specific To Criminal Proceedings

The provisions in connection with sums of criminal sanctions and proceedings with regard to Tax evasion have undergone significant amendments in tax criminal law in recent years (Kirmaz, 2015: 333). It is highly important to find out the effects of these amendments on criminal proceedings.

2.1. The Date Of Crime

The date of crime is of particular importance over many issues such as competent courts having jurisdiction, proof of crime, enforcement of law in favor of delinquents, identification of reasons lifting or reducing penalty, order of crimes and time bar.

2.2. The Tax Related Search

As a matter of fact, search is one of the instruments of criminal proceedings law to gather evidence and this means is also incorporated in tax criminal law on ground of its connection to Tax evasion (Furtun, 2010: 306).

Search is an area where tax law and criminal law intersect. The tax related search very closely affects the personal and private lives of Tax payers and / or other persons, who have relationship with them (Erol, 2010: 41).

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2.3. The Submission of Opinion

One of this type of legal institutions, which are called terms of criminal proceedings, is the one whereby tax evasion is stipulated for the process of proceedings under the name, submission of opinion. In tax criminal law, the submission of opinion by the relevant Tax Office is considered a prerequisite for prosecution / trial (Karakoç, 1996: 61; Şenyüz, 2015: 403).

2.4. The Right to Silence

A suspect and defendant preferring not to speak under criminal proceedings may not be used as either evidence or sign in proving a factor against the suspect / defendant (Ünver & Hakeri, 2014: 58).

The right to silence of Tax payers creates an area of protection in connection with refusal to provide pleadings and documents (Yaltı, 2006: 141). Someone is not obligated to provide evidence against himself and although this issue is guaranteed by the Constitution, the government may resort to certain coercive measures in order to collect taxes.

The subject has been debated by doctrine because failure to submit books and documents or hide them constitutes a crime; it is noted by some authors that punishing this crime with penalties restricting liberty creates an obstacle to the exercise of the right to silence (Bayar, 2013: 106-107; Taştan, 2014: 66; Üstün, 2011: 387; Yaltı, 2006: 142-149).

4. Conclusion

Tax related Misdemeanor and crime of Tax evasion generally go side by side in tax criminal law. As the tax administration imposes tax loss penalty on the Tax payers if the particular irregularity and terms thereof are actually in place, the relevant Public Prosecutor's Office is further advised of the crime for prosecution if it falls under Article 359 of the Tax Procedural Law (VUK). For example, it is a prerequisite that the tax authority assesses tax loss penalty in three folds so that it may serve notice of crime under the scope of Article 359 of the Tax Procedural Law (VUK).

The Misdemeanor of not submitting required documents must be excluded as Tax evasion crime and attached to administrative sanction. Besides, as the countermeasure for failure to keep any such books and documents, which are required to be maintained, not at all is ex officio tax impositions (Article 30 of the Tax Procedural Law (VUK)) and Tax Related Misdemeanor (Article 352 of the Tax Procedural Law (VUK)), the Misdemeanor, whereby it is established that such records are maintained but considered having been hidden because of failure to submit them, constituting a crime is inconsistent and meaningless in terms of crime and punishment politics.

Key words: Tax, crime, evasion, hiding, criminal trial, search, opinion, right to silence.

JEL Codes: K14, K34.

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Determinants of Preferences Toward Welfare State: Cross-Country Comparisons and Turkey Case

Savaş Çevik¹

1. Introduction

The study aims at to examine the preferences and demands of citizens on the role of the government in the extent of dichotomy of government-market. This task is fulfilled through at the country level analyses and at the individual level for Turkey.

In general, although the studies on the literature of public finance has focused the impact of fiscal activities of the governments, the citizens' perspective and demand on redistribution have rarely examined except of theoretical models. The study intends to contribute to the literature on this perspective. The study proposes that the citizens' preferences and attitudes toward welfare state and redistribution could be explained by the differences between the countries' economic and social institutions at the country level, and by social, economic, political and psychological factors at the individual level.

The data employed in the study has been obtained from the dataset collected by the World Value Survey (WVS) and European Values Survey (EVS). First section of the study examines the changing in the attitudes toward the welfare state by the time and country groups. Later, the determinants at the country level are analyzed through the pooled cross sectional regressions. Final section examines individual level determinants as demographic, economic, socio-politic variables in the case of Turkey.

2. Differences on the Attitudes toward Welfare-State: An Overview of the Literature

What are the factors shaping the citizens' attitudes on the role of the government? At the country-level perspective, it is reasonable to think that the individual preferences on redistribution and welfare state could be shaped by globalization, demographic forces, the reform initiatives, public finance crises and social risks created by the all factors (Pitlik and Kouba, 2013:2). Examining at the individual level, traditional explanation of the economics is that individuals are interested in their own interests, thus, their demands and preferences on the governments' role in the economy are determined by individual interests and benefits. Beyond this perspective, the demographic characteristics, social norms, moral values and political attitudes are supposed to have the impact on the individual preferences.

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Some studies in the area indicated that other factors than individual interest such as social and personal norms, moral values and political attitudes are important factors to explain the preferences on the role of the government (e.g. Fong, 2001; Feldman and Steenbergen 2001).

Some of studies revealed that the differences in institutional structure, culture, the relationship between citizen and government, and political system differentiate citizens' preferences on the role of the government (e.g. Corneo and Grüner, 2002; Blekesaune ve Quadagno, 2003; Dallinger; 2010). Some studies (e.g. Svallfors, 2012; Roosma et al., 2013) publishes finding on the impact of the quality of political institutions and governance. Some others (e.g. Koster, 2009; Jaeger, 2013; Jakobsen, 2011) showed the importance of macroeconomic variables to explain the country-level differences.

Studies focused on the impact of social interaction pointed out the effect of social norms, culture and personal values as a product of the individual-government relationship (e.g. Alesina and Giuliano, 2009; Stegmüller et al., 2011; Pitlik and Kouba, 2013; Bergh and Bjørnskov, 2013; Bjørnskov, 2007).

3. The Data and Methodology

The differences between attitudes toward the role of the government could be considered as an *individual phenomenon* shaped personal characteristics as well as a *collective phenomenon* as a reflection of the country's economic, demographic, fiscal, social, and political structure (Blekesaune and Quadagno, 2003: 415). With this perspective, the study examines both dimensions of the determinants on preferences. We first compare the differences between countries in the way of revealing the position of the Turkey. Then, the country-level determinants for all countries data available and the individual-level determinants for Turkey are examined by OLS regressions.

Table 1. WVS-EVS Combined Waves

The Code for Combined Wave	Years Covered	Original EVS Wave	Original WVS Wave	Survey Year for Turkey
Wave 1	1981-1984	EVS 1 (1981-1994)	WVS 1 (1981-1984)	-
Wave 2	1989-1993	EVS 2 (1990-1993)	WVS 2 (1989-1993)	1990
Wave 3	1994-1998		WVS 3 (1994-1998)	1996
Wave 4	1999-2004	EVS 3 (1999-2001)	WVS 4 (1999-2004)	2001
Wave 5	2005-2009		WVS 5 (2005-2009)	2007
Wave 6	2008-2010	EVS 4 (2008-2010)		2009
Wave 7	2010-2014		WVS 6 (2010-2014)	2011

The data employed in the study are obtained by combining the datasets collected by WVS and EVS. Table-1 presents the dataset used in the study.

WVS/EVS contains a battery of questions that would help to order individuals on a collectivist-individualist spectrum. Table-2 presents the variables to measure the individuals' preferences on the role of the study.

Table 2. Variables Related to Attitudes on the Role of the Government and the Market

Variable	Expression at the first ladder	Expression at the tenth ladder	The Code of WVS-EVS
Preferences on Redistribution (<i>redistribution</i>)	We need larger income differences as incentives	Incomes should be made more equal	E035 (the responses were coded reverse.
Preferences on Public or Private Ownership (<i>ownership</i>)	Private ownership of business should be increased	Government ownership of business should be increased	E036
Preferences on Government of Personal Responsibility (<i>responsibility</i>)	Individuals should take more responsibility for providing for themselves	The government should take more responsibility to ensure that everyone is provided for	E037
Attitudes on Competition (<i>competition</i>)	Competition is good. It stimulates people to work hard and develop new ideas	Competition is harmful, it brings out the worst in people	E039

4. Conclusion

The comparison at country level indicates that pro-government preferences increase in the most of the countries by the time. Another fact is that the average of individualistic/collectivist attitudes is correlated with the per capita income level of countries. Attitudes favor of redistribution are positively correlated with per capita GDP, while attitudes favor public ownership and government responsibility are negatively correlated with it. Moreover, the homogeneity of citizens' views in a country is positively associated with the country's income level.

Finally, we analyzed the individual-level determinants for Turkey data. Results revealed the evidences on significance of income level, subjective wellbeing (happiness and life satisfaction), generalized trust, confidence on government and private sector firms, political views and religiousness in order to determine the preferences on redistribution and ownership, along with demographic characteristics such as gender, age.

Keywords: redistribution, political preferences, welfare state, generalized trust, the role of the state, social preferences

JEL Kodu: D31; D69; D72; H10; P35

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City Hospitals as a Public Private-Partnership Project

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1. Introduction

Although the history of other public-private partnerships (PPP) models dates back to the eighties, the city hospitals model has emerged as a public-private partnership model that has been rapidly implemented by the government in Turkey since 2005. In the city hospitals model currently being implemented in Turkey, state and private sector act together to establish health facilities in a certain settlement area. The city hospitals model has three important actors or groups of actors: state, investor firms and financial institutions. The main roles of the state are to provide free land, pay the rent to the investor company during the contract period, guarantee the repayment to the financial institutions for the investors to find the loan easily and support the investor firm with fiscal incentives. The main functions of the investor firm are to complete the construction, keep the physical structure of the hospital in working condition and manage areas outside the core services throughout the contract period. The function of the financial institutions is to provide debt support to the project four times as much as the contribution of the investor company. The function of the financial institutions is to provide debt support to the project four times as much as the contribution of the investor company.

When we look at the size of the planned and completed investments with the city hospitals model today, it would not be wrong to say that the Turkish health system is evolving towards the city hospitals model. For these reasons, it is important to evaluate the city hospitals model in various aspects such as social cost, possible financial burdens to the public budget, service quality and accessibility to the health services. The purpose of this study is to demonstrate the contributions, risks and burdens that this development in the health system can bring to the Turkish health system. The study will produce estimates of future outcomes using legislation, cost and income data and stakeholder opinions on completed and incomplete projects within the city hospitals model. Based on these results, the model will be evaluated in terms of the above criteria. The study does not cover all PPP projects. It only includes city hospitals projects in form of build-lease-transfer.

2. Turkish Health System and the Place of City Hospitals in the System

Until a century ago, health services were offered as a service provided by market economies and charities (Bulutoglu, 1997: 294). Over the last hundred years, the public economy has begun to focus on this area as well as a result of better understanding of the role of human capital in economic development and the recognition of positive externalities arising from health services and their spreading throughout society. In this process, states have made health insurance compulsory and have taken the treatment services to the field of public economy. In this process, Turkey has started to offer social security and treatment services

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with an emphasis on public economy after the establishment of the Republic. In publicly-funded schemes, the financing of citizens' treatment services is covered by the public budget and / or social security institutions. Today, although the private hospital model that offers treatment services as a fee is tending to widespread, the most common hospital type is still state hospitals even in capitalist countries (Bulutoglu, 1997: 293). Treatment services in Turkey have traditionally been provided by the Ministry of Health, universities, private health institutions and municipalities. From 2005 onwards, the city hospital model has been added to this structure.

The Ministry of Development defines the Public-Private partnership as "the realization of a balanced distribution of the costs, risks and benefits of the investment and services to the public and the private sector on the basis of a contract" (Ministry of Development, 2015: VII). There is not a single PPP model that can be used for all sectors or service areas. The preferred PPP model will vary according to the public service type to be offered (Kahyaoğulları, 2013: 248). The main PPP models applied in Turkey are as follows: Build-Operate-Transfer (BOT), Build-Lease -Transfer (BLT), Build-Operate (BO), transfer of operating rights, and Concession. As a PPP model, BLT is used especially in city hospitals projects.

According to Chen, Lu and others, the private sector in the BLT model generally finances the investment from the financing institutions through the state guarantee, and after finishing the construction; it rents the establishment to the state for a certain period of time (Chen, Lu et al., 2005: 246). The upper limit for legal term in Turkey is 30 years. In the current city hospitals, the contract period is set at 25 years.

3. Implementation of City Hospitals Model as a PPP Type in Turkey

In this section, city hospitals will be studied under the following headings. In each subdivision, the existing data will be shaped, summarized and analyzed to serve the general purpose of the study.

3.1. Societal Benefits and Costs of City Hospitals Projects

According to the Public Financial Management and Control Law No. 5018, one of the basic principles of public finance is that public administrations make analyzes such as cost-benefit or cost-effectiveness analysis in accordance with economic or social efficiency principles in the production of public goods and services (5018/5-g). In this case, it is a legal imperative that the city hospitals model is more effective than the traditional public health service delivery model (state hospitals model).

The Ministry of Health and other relevant organizations should publicly share the reasons for the preference of this model by comparing the city hospitals model with the classical public service delivery methods. This is important because the state here will affect the prosperity of the next few generations and make long-term special contracts that bring them various financial obligations. In addition, the restructuring of the healthcare system with long-term contracts destroys the flexibility to enable future decision makers to develop new models and adapt them. In this sense, we can say that it is more rational to conduct pilot applications before the global transition to the BLT model.

The results from other country implementations indicate that the PPP model's success in reducing costs and increasing productivity is controversial. In the United Kingdom, where the PPP model is widely applied, the National Audit Office has reported that the PPP model is not a

viable model without examining the costs and conditions. In the Ontario region of Canada, the financial supervisory unit determined that the hospital project with PPP could cost much less in the traditional public investment model (Karahanoğulları, 2012: 101; Hall, 2009: 5).

3.2. City Hospitals Financing and Public Budget

The relationship between the financing of city hospitals and the public budget is stated in Law No. 6428. According to this, firstly, the Treasury makes a free land allocation to the company that won the tender. The contractor will provide all necessary financing for the contractual project and the treasury guarantees the payment of the debts to the financing institution which the contractor owes. According to the law, the financial resources allocated by the contractor for construction works can not be less than half of the periodical investment amount specified in the contract during the investment period. After the construction has been completed and the hospital has been started to operate, the government will pay rent to the contracting company for 25 years for the use of its facilities in the framework of the contract. According to the law, some factors should be taken into consideration in determining the cost of use (rent): investment cost, characteristics of the project, whether the contractor will provide the equipment and medical equipment, the profit amount and whether the operation of the services and commercial service areas will be given to the contractor. Making these calculations correctly and fairly constitutes one of the most critical stages of the BLT model. If the financial calculations are made incorrectly and unfairly, the company will be provided unfair earnings over the citizens' tax. According to the law, rents to be paid periodically to the contracting company will be paid from the revolving funds of the hospitals affiliated to the Ministry of Health and / or central government budget (6428 / 4-5).

One of the important features of the PPP model in terms of budget is that the investment expenditures are not included in the budget of the year in which the investment expenditures are made and the regular payments made to the contractor are spread over the years. Such extra-budget expenditures increase fiscal liabilities for future years, while public expenditures are low for the present (Emek, 2009: 12).

4. Conclusion

When we look at the size and number of projects being implemented on the basis of the PPP model in Turkey, it is clear that the nature of the healthcare sector will change drastically in the future. Given the government support and the interest of the private sector, the model will cover the entire health field in Turkey in the future. However, other country implementations do not yet reveal clear reasons why the city hospitals model is more preferable than the classical public service delivery method. Nevertheless, the Ministry of Health is planning to carry out about 30 city hospital projects in public health services in a short period of time.

In Turkey, three basic characteristics of the city hospitals model come to the forefront. First, because of the treasury guarantees given to the contracting company, the vast majority of the risks that may arise during the execution of the project are borne by the public. The second issue is the possibility of incorrect and unjust calculation of rent and service fees to be paid from the public budget for 25 years. Undoubtedly, the emergence of such a situation will significantly increase the social cost of health services. The third is that the model will not allow future decision makers to develop new models and lift the flexibility to adapt them. The third issue is that the time dimension of the model is extremely long. Such a situation makes it difficult to develop new models in the future and put them into practice. It should be kept in

mind that long-term models bear unique risks, given the rapid change in technology and technology-related service conditions, including the healthcare sector.

Key words: Turkey, Public-Private Partnership, City Hospital, Build-Rent-Transfer, Health Services Financing

JEL Codes: H43, H51, I18, L33

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Public Service Cooperatives as an Alternative Model for Public Service Delivery: The Case of England

Hakkı Çetin¹

Mustafa Sakal²

1. Introduction

Diversification and expansion of public services is seen as one of the reasons for the real increase in public expenditures. If the public incomes cannot meet the public expenditures, the budget balance is tried to be provided with income increasing or spending reduction methods. Difficulties in increasing tax revenues result in more quests for reducing public expenditures. When we deal with public services, the state is seeking alternatives for public service delivery. In recent years, cooperatives have been seen as an alternative business model in order to reduce the financial burden on public budget and to increase the service efficiency in public service delivery. One of the main components of public service reform in England in 2011, which will make more use of co-operatives in the delivering of public services, is an important example of an alternative way search.

In this study, after addressing the theoretical area and application framework of public services, how the applications of co-operatives in public service delivery are used as an alternative public service model, will be assessed through the England case.

2. Definition and the Scope of Public Services

In this study, semi-public goods and services produced by the state, are explained as public services, which are divisible and marketable. Examples of these services include; education, health, infrastructure, housing, unemployment, transportation, energy, agricultural irrigation, telecommunication, environment and culture.

3. Market and Government Failure in Public Service Delivery

Government has the fundamental responsibility to deliver services which are needed for society; however, the scale and scope of these services are limited by the amount of funds it is able to mobilize primarily through taxes. The allocation of these funds to specific policy areas is the role of the elected government and in light of the limited resources it means that there are areas of public service which are not funded, which leads to government failure (Hems, Sooriyakumaran, 2013: 9).

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Whilst government has primary responsibility for delivering public services, increasingly this responsibility is by facilitating non-government organizations to deliver these services. For some public service areas, there are clear service definitions and a range of for-profit providers which means that Government can use market competition to achieve value for money, and regulates or issues licenses to ensure service quality. However, many public service areas are complex and therefore difficult to serve and achieve a profit, which means there is market failure (Hems, Sooriyakumaran, 2013: 9).

4. New Approaches on Public Service Delivery

Because of the failures of the state and the market, the delivery of public services by non-profit organizations is becoming increasingly widespread. The main difference of cooperatives from other third sector organizations (associations, foundations and charitable funds) is, they ensure service takers and managers are the same people. This characteristic of cooperatives, increases the participation of the community in the management of public services.

5. Relationship Between Public Services and Co-operatives

Cooperatives around the world are engaged in public service activities. For example;

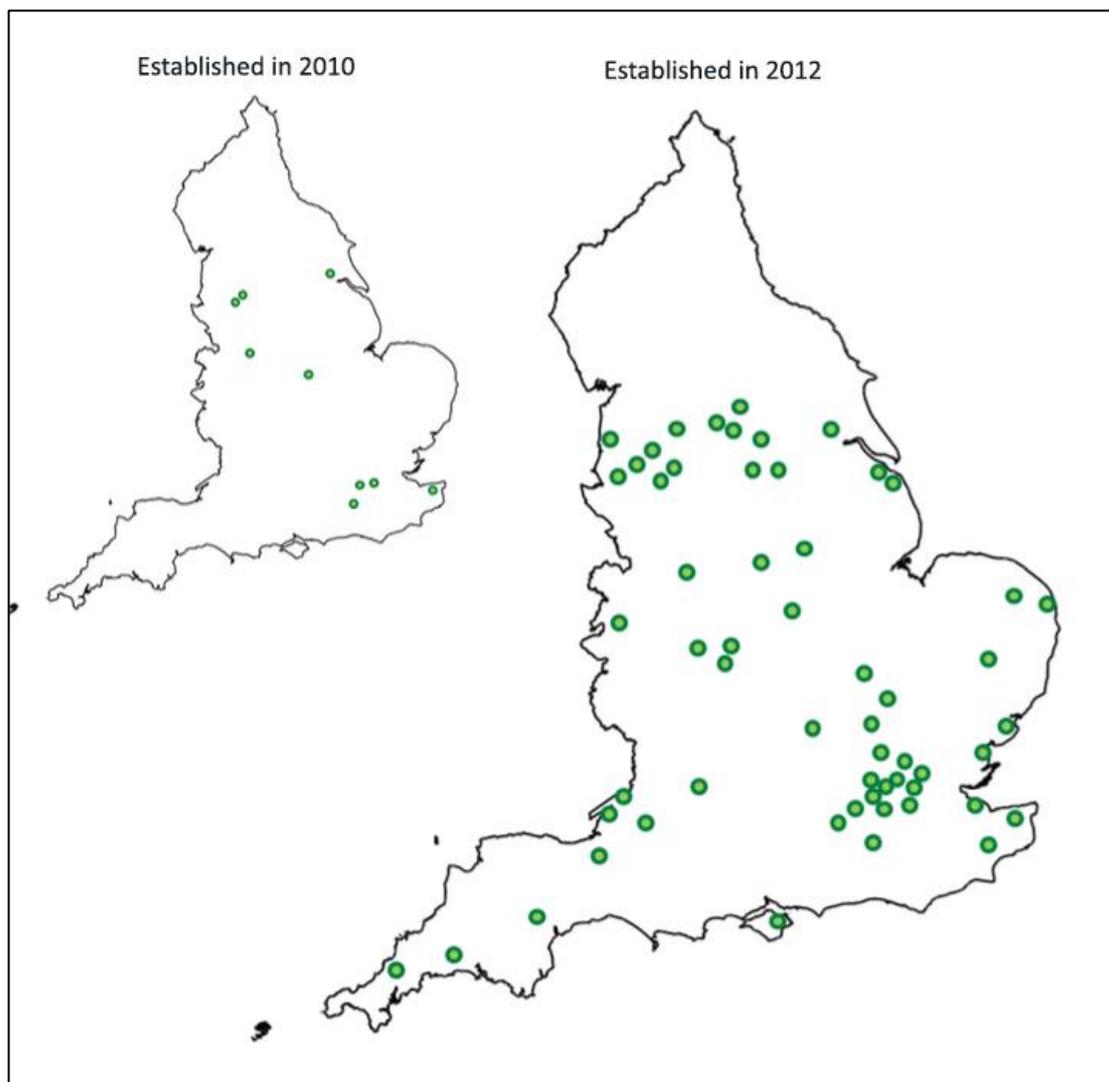
- 21% of the Spanish healthcare sector is in the hands of cooperatives,
- The Japan Consumer Cooperative Association, operates 76 hospitals with an average bed capacity of 175 beds. The governing bodies of cooperative hospitals are the representatives of stakeholders; doctors, other health personnel, service individuals / partners (Pestoff, 2013: 19).
- In Italy, 7300 public service cooperatives serving about preschool education, child protection, shelter and disability services; serve approximately 250,000 people (Pestoff, 2013: 12).

6. Public Service Cooperatives: The Case of England

A public service co-operative is an organization that offers public services in whole or in part; on which the members of the organization may be involved in the decision-making process and may benefit from their activities, including benefits derived from the re-investment of the business (Business Council of Co-operatives and Mutuals, 2014: 9).

After 2008 global economic crisis in England, public service co-operatives have been supported in the context of public service reform in 2011. it was envisaged that cooperatives would take over the burden of public service from public sector organizations with encouraging millions of public employees to become patrons of their own businesses (UK Government, 2011: 42).

Figure 1. Geographical Distribution of Public Service Cooperatives Between 2010-2012 in England



Source: Le Grand, Julian, Mutuals Taskforce. (2012). *Public Service Mutuals: The Next Steps*, Cabinet Office, London, UK, <http://eprints.lse.ac.uk/44579/>, (15.2.2017)

Within the framework of the public service reform, £ 10 million was allocated from the general budget in 2011, for the establishment of public service co-operatives (Le Grand, 2013: 134). Prior to the support program, the public service cooperative, which had a number of 9, reached 66 cooperatives nationwide in 2012. According to the year 2015, 100 public service co-operatives have provided approximately £ 1.5 billion of public services with employment of 35,000 people (Deloitte, 2015: 37).

7. Conclusion

Especially in times of economic crisis, the idea of the public services which the state neglected in order to reduce public expenditure, can be offered by co-operatives, has gone beyond a theoretical approach and has found wide application areas in many countries of the world. The

activities carried out by the cooperatives in public service areas; such as education, health, housing, disabled people, unemployment and the environment, reach high statistical values worldwide.

In order to reduce public deficits and increase service efficiency due to the negative effects of the 2008 global economic crisis in England, various reform steps planned and implementation program has been started in 2011. One of the reform steps was also to encourage the delivery of public services through cooperatives.

In our study, the case of England has shown that delivering of public services by cooperatives can be also viewed as an alternative public financing model by the reason of providing cost savings from local government budgets.

Key words: Public Services, Cooperatives, Public Finance, Public Sector Economics

JEL Codes: H42, H75, J54

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Coal and Renewable Energy Incentives in Turkey from the Perspective of Sustainable Growth

Arman Zafer Yalçın¹

1. Introduction

Today, energy is one of the most important inputs for economic growth. Especially after the Second World War, countries seeking to grow and develop have primarily increased their control over energy resources and have placed special emphasis on energy security. The energy obtained from fossil energy sources has become the most basic energy source of the developed countries. Thanks to electric energy generated from fossil-based sources such as coal, oil and natural gas, a great amount of products have been acquired from the industrial activities while fossil energy sources have become the starting point of almost all economic and social activities. On the contrary, the energy obtained from the burning of fossil energy sources has increased the release of carbon dioxide, causing environmental pollution and global warming. Today developed and developing countries are in transition from using fossil fuels to using renewable energy sources because it is observed that with the energy obtained from fossil fuels, the growth and development process are not sustainable. Countries are investing more in renewable energy sources both in order to guarantee the continuity of their economic activities and to prevent global warming in this way. The purpose of this study is to comparatively examine the financial incentives provided, limited to Turkey, to coal fired power generation that can be pointed out to be one of the most important causes of global warming, as well as the financial incentives to renewable energy sources that could stop the global warming, and to find out the sustainability level of energy policies in Turkey with the findings obtained from this study. The study will be based on the numerical data in reports published by national and international governmental bodies, universities and non-governmental organizations.

2. The Current Energy Condition in Turkey

Particularly in the last thirty years, the energy sector in Turkey has undergone an important transformation. This transformation continues in parallel with economic growth and increasing demand for social development as an energy source. On the other side, Turkey faces the challenge of ensuring energy security while meeting the rising demand for energy. This situation Turkey faces led to adoption of a strategy more focused on the development of indigenous coal resources in recent years (Acar et al., 2015: 1-2). The reports prepared by the international organizations such as the International Energy Agency (IEA), the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Bank, the Ministry of Energy and Natural Resources as well as the Turkish Hard Coal Foundation (TTK TKI) validate our thesis.

In Turkey, primary energy supply increased by 50% between the years of 2000 and 2002, and the increase in electric generation in the same period was over 100% (IEA, 2014: 14). Electricity

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demand is expected to increase annually by 6-7% until 2020, reaching 120 gigawatts in 2023 with an installed capacity of 64 gigawatts in 2014 (TEIAS, 2013: 5). In 2012, 90% of the total primary energy supply was fossil fuels; 32% of this ratio was natural gas, 30% was coal and 27% was oil. The remaining 10% was derived from renewable energy sources (IEA, 2014: 14). When the restriction of domestic fossil fuel resources is added to this resource distribution in energy production, it turns out that most of the energy supplied by Turkey is supplied with imported resources (IEA, 2014: 15). Moreover, even though Turkey has domestic coal and lignite reserves, the current level of production is not enough to meet demand.

3. Coal and Renewable Energy Incentives in Turkey

Generally speaking, energy incentives are defined as government measures that reduce the cost of energy production, increase the incomes of energy producers, or reduce the cost of energy consumers (World Economic Forum, 2009: 1). More explicitly, energy incentives are divided into four main categories: income and price support, waived state income, energy pricing below market price, direct or indirect funding and debt transfer (Acar et al., 2015: 8).

There is a growing literature on the frequency and amount of incentives provided in Turkey, especially in the fossil fuel sector. Reports such as the OECD (2013), OilChangeInternational (OCI 2014), and IEA (2014) highlight that most of energy incentives were allocated to the coal sector following energy sector reforms in the 1990s and 2000s.

This support to the sector of coal given by the government has the aim of developing the domestic reserves and supporting these reserves for economic growth by meeting increasing domestic and industrial demand (Acar et al., 2015: 8). The most crucial of the subsidies is the financial aid given to the coal industry via transfer payments. These transfers are mostly used to subsidize hard coal imports because domestic resources meet only one tenth of the total demand and the cost of supply is much higher than international prices (OCI, 2014).

The first law on renewable energy in Turkey was issued in 2005 (Law No. 5346). This law has provided tariffs of 225 Euros per megawatt an hour for 10 years for electricity generated by renewable energy sources. In 2010, there was conducted a change in the legislation. The tariffs were differentiated according to technology trends, and projects using domestic technology were paid premiums to be paid in the first five years of their activities. Additionally, renewable energy investments are subsidized under the General Investment Promotion Plan. This plan secures support for projects with VAT exemption, customs tax exemption and income tax withholding tax provided that the investment is made in Region 6. To facilitate the development and operation of renewable energy projects, it is foreseen to provide financial and non-financial support including licensing process, land acquisition and electricity purchase guarantee (Acar et al., 2015: 12-13).

4. Conclusion

The increase in incentives for coal-based electricity generation in Turkey and on the contrary, the limited availability of state support in the renewable energy sector relative to the coal sector form the most serious handicap for continuity of economic growth on a sustainability basis. The claim that the electricity energy obtained from the domestic coal is going to reduce the energy dependence on foreign sources of the country in the long run in terms of the long-term development direction of the world and Turkish economy is not realistic because the incentives provided for the coal mine, along with social and economic negative externalities,

which are extremely difficult to calculate in the long run, strengthen the possibility of leading the country's energy security to a stalemate. In today's world, developed world economies diversify their energy policies in favor of renewable energy to limit emissions by limiting the use of coal. To this end, they give importance to innovations, specifically in the field of renewable energy, and they spare more financing to this area. Turkey has to gradually lift the financial incentives provided to the fossil energy sources such as coal in the medium term in accordance with the declaration of intent to reduce emissions in the Paris Climate Convention beginning from 2020. Instead, it is crucial to develop an environmentally friendly and safer energy policy and build an economic structure based on sustainability principles. In this sense, there are some important steps that can be taken in the short-term in order to achieve energy security, cost-competitive energy and clean energy supply targets. These include a series of measures such as the gradual lifting of fossil fuel incentives, the subsidy of innovative technology initiatives to cut costs in the field of renewable energy, the creation of more comprehensive programs to increase energy efficiency, and the reduction of energy losses by improving the existing electricity network.

Key words: Sustainable Growth, Energy Incentives, Coal, Fossil Fuels, Renewable Energy.

JEL Codes: H23, Q22, Q42, Q48

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Factor Determining Government Size

Nazlı Keyifli¹

Sacit Hadi Akdede²

1. Introduction

Discussions about what should be the limit of government size and how to determine it are among the important issues in the literature of public finance. Since factors such as political preferences, socia-economic structure, level of development and population density differ from one country to another it is almost impossible to determine a public sector size that may be valid in all countries. When the different conditions of countries are taking into account, it is seen that there isn't a direct measurement unit to measure the size. We have seen that use different indicators. There are some studies in public finance literature about the government size in certain periods and on specific groups of countries. In this study the effect of political and economic variables on government size will be analyzed by using panel data analysis method by using 1990-2015 data of the countries included in the World Bank Database.

2. Literature

When looked at several articles on the literature on government size; Mukherjee (2003), investigated the effect of an increase in the number of represented political parties and the size of the majority party on the size of government. He used a panel data set that is composed of yearly observations of OECD countries for the period from 1978 to 1996 and non-OECD countries for 1980 to 1996. Finally, the analysis showed that an increase in the number of represented parties leads to higher government spending on subsidies and transfers.

Lindqvist and Östling (2010) empirically analyzed the relationship between political polarization and government size. They were used data of 74 countries of 1995-2005 periods in their study. Finally, political polarization is strongly associated with smaller government in democratic countries, but there is no relationship between polarization and size of government in undemocratic.

Dash and Raja (2012), examines whether the allocation of public expenditures of the 14 Indian states are significantly influenced by government specific political characteristics. Using panel data set technique, an annual dataset Indian states are compiled for the time period from 1980 to 2007. The results of this study, political

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determinants are influential in the distribution of public expenditure and coalition government has reached the conclusion that they have further increased public spending.

3. Empirical Analysis

3.1. Data Set and Method

In this study annual data covering the 1990-2015 period of the countries included in the World Bank Database were used. Government size will be used as a dependent variable. As a measurement unit the ratio of government final consumption expenditures to Gross Domestic Product (GDP) was taken into account and this data was obtained from the World Bank "World Development Indicators" database. Independent variables are political polarization, GDP per capita, population density, religious fractionalization, gini democracy, government fractionalization. The dummy variable was used to determine whether the country is in a federal structure. GDP per capita, gini, population density data from The World Bank "World Development Indicators" database, religious fractionalization data from The Quality of Government Dataset database, democracy data from Marshall and Jaegger's Polity's 4 Database, government size data from The World Bank's Database on Political Institutions and political polarization data from World Values survey database have been collected. The source of the dummy variable is Adserà, Boix and Payne (2001). In the analysis of the data, panel data method has been used. The panel data method which allows time series and cross section use together provides more information on both periods and units (Tatoğlu, 2013: 3).

3.2. Results

Descriptive Statistics

Descriptive statistics of variables are shown in Table 1.

Table 1: Descriptive Statistics

Variable Name	Observation	Average	Std. Error	Minimum	Maksimum
Government Final Consumption Expenditure	386	15.89	5.20	2.80	48.06
Political Polarization	145	2.80	0.36	1.91	3.54
Gini	283	38.52	9.30	19.49	63.9
Population Density	400	203.19	702.95	2.27	7553.63
Percapital GDP	391	2.16	4.55	-30.26	35.44
Religion Fractionalization	400	0.44	0.23	0.00	0.86
Democracy	391	6.32	3.64	0	10
Government Fractionalization	392	0.61	0.22	0	0.99
Federal	400	0.17	0.38	0	1

The choice between the Fixed Effect Model and the Random Effect Model for estimating the model to be installed was made by the Hausman (1978) test. The results of the analysis are shown in table 3.

Table 3: 1990-2015 Period Panel Data Results of The Countries Included in The World Bank Database

Dependent Variable: PPSgt		
Independent Variables	Fixed Effect	Random Effect
KUTUPsor	-1.108 (0.192)	-1.965 (0.003)*
GINI	-0.220 (0.023)**	-0.113 (0.011)**
NUF4	0.003 (0.856)	-0.006 (0.021)**
PERcap	-0.400 (0.003)*	-0.476 (0.000)*
DIN	0 (omitted)	5.064 (0.010)**
POLITY4	0.181 (0.288)	0.231 (0.026)**
FRAC	5.483 (0.117)	6.991 (0.001)*
FEDERAL	0 (omitted)	-3.012 (0.004)*
Number of Observations	107	107
R^2	0.342	0.496
F-Statistic	0.000*	0.000*
Hausman Test		0.127

Not: *, **, *** respectively %1, %5 and %10 level of significance.

As seen in Table 3, Hausman test results suggest that the random effect model is valid. As a result of random effects, political polarization, gini, population density, per capital GDP, religion fractionalization, democracy, and government fractionalization variables have different directions to influence government size and statistically significant relationship was found. In general, findings obtained as an empirical analysis support the literature.

4. Conclusion

In the study the effects of political and economic variables on government size were investigated by using panel data econometric analysis method by taking % 5 annual averages of the annual data of 1990-2015 period of the countries included in the World Bank Database. Dataset is composed of five years period because a political polarization data is arranged for 5 years. Although there are different indicators in the literature on measuring the government size, in this study the ratio of government final consumption expenditures to GDP was used to measure the size. On the other hand it is inevitable that different political preferences will emerge as a result of the

political polarization that is dominated by different ethnic, religious and cultural perceptions in the country. In this point it has been reached that political polarization and religious differences should be considered as factors affecting government size.

Keywords: Government Size, Political Polarization, Panel Data

JEL Codes: H50, P16, C23

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Rationality of Fiscal Rules

Esra Doğan¹

1. Introduction

Fiscal Rules based on Constitutional Economics and Public Choice Theory, has started to develop from beginning of the 1970's and has an increase importance with the crisis of the 2000's. Evaluation of results of the application of these fiscal rules is necessary because of the fact that fiscal rules has been accepted as the single economic recipe and the budget rule during the development of neo-liberal policies. In the scope of this study it is aimed to ascertain the reasons of fiscal rules rationalization process based on neo-liberal policies. Thanks to this study it is planning to make up for the deficiency on the discursive critiques about fiscal rules. Therefore it is used the statistics published by World Bank and IMF for the evaluation of 89 countries. In the scope of this evaluation firstly it is formed a scaling on the level of fiscal rules and secondly it is evaluated that the relationship between this level of fiscal rules scaling and the level of corruption, voice & accountability. Finally it is being planned to conclude that rationalization instruments of fiscal rules cannot be realized in the meantime.

2. Overview of Fiscal Rules

Discussion on aims and purposes of fiscal rules are necessary because of the broad effect of fiscal rules in economy policies. When the formation and application process of fiscal rules are evaluated together it is seen that fiscal discipline is accepted as the basic problem of economies and fiscal rules are accepted as the main factor of fiscal discipline via the legal and institutional regulations on economy policies. Evaluation for this situation is based on the relationship between state and economy. According to this situation, firstly the question of "Should the State intervene in the economy?" and secondly the question of "How relationship between state and economy should be regulated?" should be answered. Possible answers of these questions are stated Table 1, below.

Table 1: Cases for the Relationship Between State and Economy

Step 1	Intervention Application?	Intervention Applied				Intervention Not Applied
Step 2	Intervention Vehicle	Fiscal Vehicles		Monetary Vehicles		
Step 3	Intervention Method	Optional	Rule Based	Optional	Rule Based	
	Case 1	-	-	-	-	+
	Case 2	+	-	-	-	-
	Case 3	-	+	-	-	-
	Case 4	-	-	+	-	-
	Case 5	-	-	-	+	-

Source: Table has been prepared by the author.

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According to the answers of these questions, the size of relationship between state and economy and the scope of economy policies can be varied. The process of this situation in the historical process is summarized Table 2, below.

Table 2: Relationship Between State and Economy During the Historical Process (Between 16-20 century)

16th c.	17th c.	18th c.	19th c.	20. yy			
				1929 and after	1930-1940	1960's and after	1970's and after
Mercantilism (Formation of nation state)		Physiocrats	Traditional Policies	Keynesian Policies	Freiburg School	Public Choice Theory and Constitutional Economy	Monetarist Policies
Conservative and Interventionist State		Limited Intervention State	Conservative State	Interventionist State	Interventionist State-Limits and rules	Interventionist State based on Constitutional Regulations	Conservative State (If there is need for intervention, monetary vehicles should be applied)

Source: Table has been prepared by the author.

It can be said that the history of fiscal rules based on the period of 1930-1940's under the authority of traditional public finance approach of Keynes in consideration of the importance of the intervention method of state to economy according to the Table 2, above. Moreover fiscal rules became important as a basic discipline mechanism due to the effect of public choice theory and constitutional economic theory after 1960's, decreasing importance and effect of Keynesian policies after 1970's and especially neo-liberal policy regulations after 1980's. The important point is basic and structural transformation has occurred instead of method transformation of application and monitoring because of the application process of fiscal rules are institutional and extensive as politics. As a matter of fact that this situation can be seen as Table 2. In consideration of the situation of respondents is enough for understanding the size of this structural change. Such respondents can change according to people who determine and apply the fiscal rules. Basic problem related to respondents is whether fiscal rules are being determined by elected as representative of popular sovereignty or appointed. The importance of this situation is apparent in consideration of "pursue of power" which is the basic of popular sovereignty and stated as "*Limiting the appointed power of impose a tax and spending and subject to approval process is the basic step of transition to democracy and the meaning of belonging this power to public is "pursue of power"*" (Yılmaz, Emil, & Kerimoğlu, 2012). According to this, fiscal rules are accepted as the basic discipline mechanism based on popular sovereignty and it causes to become of popular sovereignty querying.

3. Conclusion

Fiscal rules which has comprehensive position in relation to the state and economy, are consistently on the agenda due to the different business cycles in the economy of the country, especially during periods of economic crisis. Application results of fiscal rules are being increased due to the fact that fiscal rules are accepted as a vital solution during the crisis and during the other periods as a key element of fiscal discipline. On the other hand a problem arises as a result of the transformation of the concept of popular sovereignty in representative democracies into the concept of technocratic sovereignty, in accordance with the structure of the fiscal rules.

In this context, the rationality of these rules has been tried to be questioned by comparing the results of the application of the fiscal rules with the application of the “technocratic approach” against to the “popular sovereignty approach”. However, as a result of the study, despite the waiver of the concept of popular sovereignty in 89 countries, it is concluded that there is no decisive effect on the elements of fiscal discipline as expected. Therefore, it can be said that fiscal rules which do not cause significant improvement in implementation, cannot be rationally accepted in the context of the waived sovereignty right.

Key Words: Fiscal Rules, Governance, Political Corruption.

Jel Codes: E62, D73, H11

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The Causality Relationship Between Minimum Wage and Growth: Turkey Example (1997-2015)

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Seda YILMAZ²

1. Introduction

The implementation of minimum wage is setting the lowest wage that workers will earn by interfering the labor force market by the government. In Turkey, with this implementation, as guaranteed by the constitution, it is aimed to secure the equality in income distribution by the government intervention. The implementation of minimum wage has also effects on macroeconomic variables such as consumption, investment, growth, employment and tax revenues.

The implementation of minimum wage is the direct concern of public finance field to the extent of securing the equality in income distribution and the economic growth, being one of the main goals of the fiscal policy, and their effects on macroeconomic variables. Especially, recent arguments about the considerable increase on the minimum wage of 30 % and the positive and negative effects of this increase exhibit significance of this study

In this study, it is aimed to analyze the existence and direction of the relationship between real net minimum wage and real GDP growth with Granger Causality test, being one of the econometric methods with time series analysis between 1997-2015, in Turkey. The study includes the literature on relevant empirical evidences, data set and method and findings obtained as a result of the analysis.

2. Literature Review

Some studies found which are analyzing the relationship between minimum wage, growth and unemployment when the relevant literature has been checked. In the studies analyzing the relationship between minimum wage and growth, mostly it is asserted that there is a positive relationship between minimum wage and economic growth (Cahuc and Michel, 1996; Prash, 1996; Ravn and Sorensen, 1999; Irmen and Wigger, 2002; Fanti and Gori, 2011).

The studies analyzing the relationship between minimum wage and unemployment mostly address a negative relationship between minimum wage and unemployment (Neumark ve Wascher, 2006). In the study made by Stigler (1946) it is asserted that according to the type of labor force market, the direction of the relationship between minimum wage and unemployment will change.

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It is realized that there are limited number studies when the researches about minimum wage, growth and unemployment are checked in Turkey. In the study belonging to Kargı (2013), the sticky wage hypothesis was analyzed with the quarterly data from the period of 2005-2012, and it was concluded that minimum wage is not supported enough by GDP increases. In the study in which Sunal and Alp (2015) examined the period of 1987 to 2012, it was determined that the real GDP growth rate is the one way Granger cause of real minimum wage rate. In the study made by Güven, Mollavelioğlu and Dalgiç (2011), the relationship between minimum wage and employment in Turkey was analyzed for the period of 1969 to 2008, and it was determined that the implementation of minimum wage is not the cause of the changes in employment. In the study made by using data between 1969-2006 on minimum wage, inflation and unemployment by Korkmaz and Çoban (2006), it was concluded that minimum wage has had no negative effects on unemployment.

3. Methodology and Data Set

The causality relationship between minimum wage and growth is analyzed with time series analysis. The stationarity of the data must be checked first when time series analysis is made. After analyzing the minimum wage and growth rate variables, it is seen that they are stationary. Following the stationarity test, relationship between minimum wage and growth was analyzed by Granger causality test.

The data about the net minimum wage is acquired from website of the Ministry of Labor and Social Security. Annual data is acquired by averaging of the period net minimum wage and added to the model. After adjusting inflation, the exchange ratio of the acquired net real minimum wage in compare to the preceding year was calculated. The data about real GDP growth rate is acquired from OECD.

4. Findings of the Study

In order to analyze the relationship between the real net minimum wage exchange ratio and real GDP growth rate, firstly stationarity of series is observed. After it is seen that series are stationary, Doornik-Hansen normality test, autocorrelation test and AR graph were examined and Granger(1996) causality test was implemented. The result of the causality test is that the net real minimum wage rate is Granger cause of real GDP growth.

5. Conclusion

The implementation of minimum wage has importance for ensuring equality in income distribution and various macroeconomic variables socially and economically. The empirical studies made for this subject show that there is a relationship between minimum wage, growth, employment and inflation. In this study it is aimed to analyze the causality relationship between real net minimum wage and real GDP. In order to determine this relationship Granger causality test was made with the data acquired between 1997 and 2015. As a result of analysis, it was concluded that real net

minimum wage is the Granger cause of real GDP while real GDP is not Granger cause of real net minimum wage. In other words, it was concluded that there is a one way causality relationship between real net minimum wage and real Gross Domestic Product.

Key words: Real GDP, Real Net Minimum Wage, Turkey, Causality Analysis

JEL Code: J31, E24, O47

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The Analysis of the Postgraduate Theses Written on Public Finance in terms of Various Criteria in Turkey (2003-2017)

Furkan Beşel¹

1. Introduction

Various studies have been carried out on postgraduate theses in different fields. It is observed that these studies which have focused particularly on education sciences are related to bibliometric analysis, content analysis and subject distribution of the theses, the resources which have been referred at most, analysis of research methods and data collection techniques which have been used. Analysing postgraduate theses written on a particular field could provide information about the depth and prevalence of the subject and reveal general outlook of the field that is studied (Karadağ, 2009: 76).

There are lots of studies² that have examined postgraduate thesis in different disciplines. However the study on postgraduate thesis which was carried out by Bozdoğan in 2010 is the only one that analysed the postgraduate theses in the field of Public Finance. Moreover, in the study in which quantitative outlook of academic studies in the field of public finance in Turkey has been examined, Bozdoğan and Bozdoğan (2011) have taken the photo of the field of public finance in Turkey through analysis on publication performances of academics and on publications in the field of public finance.

Since there is no study after the study of Bozdoğan (2010) in which postgraduate theses on public finance were examined on the basis of various parameters, it has been decided on this study to include postgraduate theses written in the field of public finance over the last fifteen years (2003-2017) in Turkey in order to update the previous study and analyse it more comprehensively.

2. Methodology

In this study, document analysis has been used as data collection method. The aim of the study is to examine postgraduate theses written in the field of public finance in Turkey. Within the scope of the study, it has been targeted to summarize such characteristics as type of the thesis, distribution by year, universities where they were written, distribution by writers' gender, distribution by writers' bachelor's degree,

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² Please see for example studies: Herubel (1991), Walcott (1994), Zipp (1996), Buttlar (1999), Edwards (1999), Waugh & Ruppel (2004), Şimşek et al. (2009), Uçak & Al (2009), Tatlı & Adıgüzel (2012), Şahin et al. (2013), Coşkun et al. (2014), Bayın (2015), Yorulmaz (2016).

distribution by thesis advisors, distribution by thesis advisors' titles, distribution by jury, distribution by status of permission, distribution by departments, distribution by discipline, distribution by the number of departments, average of the number of pages, the lowest and highest numbers of pages, distribution by page range, distribution by key words and words which have been used most in the titles and abstracts, and distribution by the contents and methods.

Postgraduate theses written in the departments of "Public Finance", "Financial Law" and "Public Finance and Economics" during the period of 2003-2017 have been downloaded from Thesis Centre database of the Council of Higher Education (YÖK) and analysed. As a result of the scanning, 1714 thesis have been reached out and examined in the scope of the study.

3. Conclusion

The study has been carried out in order to examine postgraduate theses written in the field of public finance in the period of 2003-2017 in terms of various variables. In this context, 1714 postgraduate theses have been analysed through the method of document analysis. 19.5% of the theses that have been analysed in the study are doctorate and 80.5% are master's thesis. While 16.6% of master's theses are unauthorized or not allowed to be downloaded, the rate is at the level of 24% for the doctorate theses. It has been observed that writers of the theses are mostly men and according to gender comparison, it is seen that women have participated in master's studies more than doctorate studies. In the study it has been concluded that master's theses were written in 2010, 2006 and 2011, respectively, at the most and in 2003, 2016 and 2004, respectively, at the least; and doctorate theses were written in 2013, 2006, and 2012, respectively, at the most and in 2005, 2016, 2003 and 2015, respectively, at the least.

It has been observed that the doctorate and master thesis written over the last fifteen years have been completed at the most at Marmara University, Istanbul University and Dokuz Eylul University, respectively. It is seen that those who completed master's degree in the field of public finance obtained their bachelor's degree at the most from Uludag University, Karadeniz Technical University, and Suleyman Demirel University, respectively; and those who completed doctorate obtained their bachelor's degree at the most from Istanbul University, Anadolu University, and Uludag University, respectively. Moreover, it has been found out that those who completed master's degree in the field of public finance obtained their bachelor's degree at the most from the departments of Public Finance, Business, Economics and Public Management, respectively and those who completed doctorate obtained their bachelor's degree at the most from the departments of Public Finance, Economics, Law, Business, Public Management, Tourism and Hotel Management, Faculty of Medicine, and Econometrics, respectively.

Considering all of the postgraduate theses written in the field of public finance over the last fifteen years, it has been found out that academics who have been the advisors for the thesis at the most are Prof. Dr. Salim Ateş Oktar, Prof. Dr. Şükrü Kızılot,

Prof. Dr. Kamil Tüğen, Prof. Dr. Zeynep Arıkan, and Assistant Prof. Dr. Ahmet Bumin Doğrusöz, respectively. Moreover, distribution by titles of advisors for the master's theses in the period of 2003-2017 is as the following: 30.6% are associate professor, 34% are assistant professor, and 35.4% are Prof. Dr. distribution by titles of advisors for the doctorate theses are as the following: 9.9% are assistant professor, 15% are associate professor and 75.1% are Prof. Dr.

It has been observed that those academics who have participated in thesis defence juries at the most are Prof. Dr. Salim Ateş Oktar, Prof. Dr. Elif Sonsuzoğlu, Prof. Dr. Ahmet Burçin Yereli, Prof. Dr. Necmiddin Bağdadioğlu, Assistan Prof. Ahmet Bumin Doğrusöz, and Prof. Dr. Zeynep Arıkan, respectively.

Almost whole of the master's and doctorate theses were written at the Department of "Public Finance". Departments of "Financial Law" and "Finance and Economics" follow the department of public finance, respectively.

It is seen that the postgraduate theses analyzed in the study are mainly composed of three, four and five sections, respectively. When the number of sections is considered generally, it has been observed that there is one section at the least and are ten sections at the most in the master's studies and these studies are composed of three sections in general while doctorate theses are composed of two sections at the least and seven sections at the most.

When the number of pages of the postgraduate theses is examined, it has been found out that master's theses are composed of 162 pages on average and doctorate theses are 288 pages on average while the average number of all postgraduate theses is 187. While the master's thesis with the lowest number of pages written in the field of Public Finance over the last fifteen years is composed of 54 pages, the highest number is 532. The lowest number of pages is 109 while the highest is 698 among doctorate thesis.

Five of the key words which were used in postgraduate theses at the most are "Tax", "Public", "Financial", "Europe", and "Social". Moreover, five words that were used in the titles of postgraduate theses at the most are "Tax", "In Turkey", "Example", "Assessment of", and "Public" while five words which were used in the abstracts of postgraduate theses at the most are "Tax", "Public", "Economic", "Financial", and "Social".

It is expected that this study, in which 1714 postgraduate theses written in the field of public finance over the last fifteen years have been comprehensively analyzed in terms of various variables, would lead the way for researchers to determine subjects, content and form of postgraduate theses that will be written in the field of public finance in future.

Keywords: Post Graduate Theses, Public Finance, Document Review Analysis

JEL Codes: A23, HO, C25

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Investigation of the Public Procurement Relationship for Corruption Risks

Özhan Çetinkaya¹

1. Introduction

The lack of corruption is related to the content of the relevant law and the nature of those who enforce the law. This is the case of the existence and development of corruption. It is expressed in two main reasons formulated by the Chinese reformist Wangan Shih who lived between 1020-1086 (Ugur, 2012: 306). These; "Bad Law, Bad Human." Even if there is only one of them, it may be the case that the situation causing the existence of corruption arises. This study, which examines the Public Procurement Law in terms of corruption risks, is also aimed to draw attention to the situation of the applied Laws in order to provide benefits to others.

2. Concept of Corruption

When the concept of corruption is replaced by world history, corruption begins with a bribe given to the teacher by a family of unsuccessful students on a "Sumer School Days" tablet. In ancient China, corruption has been developed as a bribe, and it has been stated that an additional payment has been made to the salaries of civil servants in order to prevent bribery (TEPAV, 2006: 33). Looking at the near-term situation of the corruption concept, it is seen that it continues to be a topic of investigation and research that has not lost its significance in the last 20-30 years period. The underlying reason for the concept being subject to review is that this action has not continued to be seen in Turkey as it was in this period, especially in the developing countries (Özbaran, 2003: 18).

2.1. Causes of Corruption

Causes of corruption (Çaha, 2009: 114); It is possible to state the weakness of the education-culture level, the disorder of the social order, the low level of income, the weakness of the democracy culture, the political system based on rent, the inadequacy of laws and law, the weakness of bad government and bureaucracy. These factors, which are effective in the emergence of corruption, can vary depending on the development of countries.

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2.2. Types of Corruption

It is possible to state under what title "corruption types" the actions taken when we define corruption as the use of public power to provide benefits by public officials. The various actions we call corruption are under the heading of administrative corruption and political corruption in some studies.

2.2. The Effects of Corruption

With the emergence of corruption, it will face various influences or consequences that can be expressed politically, socially, economically and financially. It has been stated that corruption in the studies about the corruption in general, the negative aspects of the heavy, but positive aspects may be expressed.

3. Investigation in terms of Corruption Risks and Public Procurement Law

According to third article titled "Exceptions to the Law", there are twenty exceptional cases as of 2017. This situation is significant in terms of number and content. In the European Commission's Turkey 2010 Progress Report on the exceptions, a determination was made about this situation and attention was paid to the increase in the number of exceptions from the first year of the Law (Günel, 2011: 108).

When the basic principles stated in Article 5 of the Law are examined, it is seen that there is a sufficient amount of basic subjects for the absence of corruption. In particular, it is necessary to draw attention to the principles of transparency, competition, equal treatment, confidentiality, meeting the requirements in a timely manner. However, when we examine the law, it is understood that these principles are important practices that are damaging.

Approximate costs are a matter of risk of corruption. According to the Law no. 4734, it is essential that the approximate costs are kept secret. It is a matter of controversy whether it is beneficial for the administration to keep the approximate costs hidden. Confidentiality of the costs can be either an extremely low value for the bidders or a high price for the administrators (Serdar, 2010: 38).

One of the most important factors in the public procurement from the market is the ability of the tenderers to do business. When this is taken into account, the public will tend to the tender of belief in the ability to make a sense when the person who does not leave himself halfway and fulfills his wishes within the framework of the rules. When the information and documents requested by the law are examined, it is clearly understood that there is no contradiction in terms of the risk of corruption in the text of the law. The risk of corruption that may arise in this context may arise for implementation.

One of the most important topics for which we can discuss corruption risks is the application of procurement procedures and the declaration. Where corruption is expressed as a benefit to a person, it is preferred to interpret the procurement

procedures in the Law as it is done by the administration, which reveals the risk of corruption within the scope of the benefit.

The risk of corruption can only develop later, not just at the tender stage but after the tender process is over. This situation, which is included in the tender process, is referred to as crime of misrepresentation of transactions that do not comply with the legislation and misrepresentation of the performance of the act (TCK).

In addition to the shortcomings of the personnel who perform the procurement procedures, the lack of quality means of the members of the tender commission that carry out the tender strengthens the risk of corruption. There are significant problems in the creation of tender commissions in public administrations. This is especially important in the tender procedure between open tenders and certain tenderers.

Those who are willing to work in the tie-ups are the ones that can try to direct the companies to either the companies themselves or to the designated person by going to the way of negotiating with some personnel within the administration.

4. Conclusion

It is aimed to examine the provisions of the "Public Procurement Law No. 4734 dated 2002" from the point of view of the risk of corruption with the heading "Investigation of the Public Procurement Law in terms of Corruption Risks" and it is intended to explain the insufficient provisions of the Law on Corruption and the consequences of the actions of public officials implementing these provisions. In addition, the content of the law in the development of the corruption case will be accompanied by examples of public servants' behavior, as well as the fact that the public servants' own interests are influenced by the provisions of the law of the firms.

Key words: Public Expenditure, Procurement, Budget

JEL Code: H50, H57, H61.

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An Enterprise Risk Management Maturity Model Proposal Applicable at Public Institutions

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1. Introduction

In recent years, various standards and frameworks in the field of risk management have been established and they have started to become widespread in public and private sector. In this scope, organizations such as COSO (The Committee of Sponsoring Organizations of the Treadway Commission), ISO (International Standards Organization), ISACA (Information Systems Audit and Control Association), RIMS (Risk Management Society) and FERMA (Federation of European Risk Management Associations) have published guidelines.

All these guidelines and standards set out a general framework and/or basic principles of risk management. Determining the rules governing risk management, regardless of countries or sectors, is crucial in terms of systematizing the concept of risk management. However, the existence of general rules does not diminish the significance of converting these rules into an “applicable” model taking into account the sui generis characteristics of the country and/or the industry. On the contrary 'filling' these 'frames' with the facts and realities of the country and industry will increase the applicability of these frameworks.

2. An Enterprise Risk Management Maturity Model Proposal Applicable at Public Institutions

The studies on risk management generally emphasize the deficiencies or inaccuracies in institutional risk management as the cause of different crises from the Enron crisis to the global financial crisis. However, while the 'diagnosis' is correct, the question of why the general methodology of risk management or the standards and frameworks published in this field could not prevent or 'cure' the emergence of these crises still remains to be answered. It is clear that to what extent the general 'prescriptions' given without taking into account the special circumstances of the countries or institutions are remedy must be assessed whilst searching for the answer to this question.

Therefore, the frameworks that are prepared independently of the unique conditions of the countries that reflect the common sense and global accumulation of knowledge and experience on risk management should be complemented by the facts of the countries themselves. For this purpose, a new model has been developed which can be applied in public institutions, benefiting from widely accepted standards and frameworks in the field of risk management and taking into account factors such as our country's legal regulations, financial management, and control structure and management culture.

Our corporate risk management maturity model proposal is composed of four components which are strategy, processes, personnel and information technology. Each component is

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assessed with five levels of maturity, initial, limited/non-systematic, open to development, sufficient and advanced.

It is thought that our study will be contributing to the literature because, to the best of our knowledge, it is the first enterprise institutional risk management model proposal which is prepared to take into account our public financial management and control system.

2.1. Strategic Planning

It is important to manage the risks that enable uncertainties to be reduced or opportunities to be assessed in terms of reaching the targets on the strategic plan. In this scope, strategic risks are defined as internal and external uncertainties affecting the institutions's strategies or implementation of these strategies (RIMS 2011), and management of such risks is intended to assist decision-makers in developing administrative activities and increasing the likelihood of achieving the intended outcomes (Maia and Chaves 2016).

Strategic planning, which is the first and essential component for effective risk management in these institutions; thought that it should composed of four sub components which are strategic planning and implementation, performance indicators, monitoring and evaluation, and management awareness and support.

2.1.1. Strategic Planning and Implementation

Even though strategic planning does not make any sense, it is also true that the preparation phase of the strategic plan is as important as the implementation (Köseoğlu et al., 2009: 87). Therefore, the success of strategic planning makes it necessary to evaluate the planning and implementation phase together.

2.1.2. Performance Indicators

Performance indicators are sub-components of the strategical planning, which show specified targets have been reached to what extent; expressed in type of quantity, time, cost; which can be specified as input, output, result, effect or quality indicators, quantitative tools that provide data for the monitoring activity (Maliye Bakanlığı, 2009).

2.1.3. Monitoring and Evaluation

Monitoring and evaluation as the third sub-component of fundamental component strategic planning; is a persistent important phase in which controls and evaluations are carried out in order to realize the objectives and targets in the plans. In order to strategic targets to be realized, performance indicators must be determined in line with the targets. Using the information obtained in this framework, the plan is reassess and the targeted and achieved results are compared (Akçay 2009).

2.1.4. Management Awareness and Support

Because the management's adoption of strategic plans is an important factor in the implementation of the plans at the desired level, management awareness and support has been identified as the last subcomponent of the fundamental component strategic planning of our Maturity Model. Understanding of the importance and the necessity of the plan by the top manager and taking the necessary precautions by forming the working environment for it, will help the formation of the strategic thinking consciousness in the personnel, understanding the contribution of planning for the institutions and providing necessary awareness will be beneficial to take the strategic management as the basis in corporate culture.

Management awareness and support; is assessed by the level of maturity at the initial, limited / non-systematic, open to development, adequate and improved.

a) **Initial level:** Monitoring and evaluation results are reported to the management at these level organizations, but there is no reasons of deviation from the target at the report. There is no structure that objectives and targets are monitored by performance indicators and the results of realization are reported in certain periods (Ministry of Development, 2014a).

b) **Limited / Non-systematic level:** Administration of organizations at this level of maturity, consider performance monitoring and evaluation results for some units and activities. All processes are not provided with necessary management support during preparation, implementation, monitoring and evaluation stages. Moreover, organizational capacities are not strong (Kalkınma Bakanlığı, 2014b).

c) **Open to development level:** Management considers performance monitoring and evaluation results for all units within the performance program. However, perception that the strategic plans need to be largely planned according to legislation, instead of aforesaid plan has not yet been established in the organization. In this aspect, senior management support is not provided at a sufficient level with those involved in the strategic planning process of the top management.

d) **Adequate level:** Performance monitoring and evaluation results are taken into account by management by all units within the performance program and feedback is given about results to the relevant units. Training is organized to increase the awareness and ownership of strategic plans and necessary measures are taken by the management for the problems seen in implementation before each strategic planning period and contribution to improvement is made by taking the previous plan results into consideration.

e) **Improved level:** All the processes are provided with necessary management support during the preparation, implementation, monitoring and evaluation stages, the strategic management understanding has been adopted by management and management considers the results of performance monitoring and evaluation for all units within the performance program. The results are reported to the relevant units. Improvements are made on the basis of the results, and management support is provided for the implementation of applicable improvement proposals (Maliye Bakanlığı, 2009).

All of the components listed above were assessed with respect to subscale levels of maturity at baseline, beginner, limited / non-systematic, open to development, sufficient and advanced.

3. Conclusion

Employing widely accepted standards and frameworks in the field of enterprise risk management, we have developed a new model that can be implemented in public institutions, taking into account our country's legal regulations, financial management and control system. Enterprise risk management maturity model proposal comprises of five components which are strategy, processes, personnel and information technology. Under these four components, with respect to their sub-components, maturity levels were defined under each heading to determine the level of development in institutions' risk management. Each sub-component is described by a five-level maturity level, initial, limited/non-systematic, open to development, adequate and improved.

The model is a roadmap showing the institutions' current situation in terms of enterprise risk management and the processes they need to complete to reach the targeted level. The model proposal is designed to be compatible with the standards and frameworks for Enterprise risk management and to increase the applicability of these standards and frameworks.

Key words: Enterprise risk management, maturity model, financial management and control, strategy

JEL Codes: H11, H12

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Fiscal Decentralization in Turkey and Differentiation in Selected Provinces

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1. Introduction

Decentralization means delegation of responsibilities from central authority to quasi-independent government organizations, private sector or sub-administrative units. In other words decentralization; refers to the transfer of administrative political or financial responsibilities to sub-management levels (Rondinelli,1999:2). Decentralization, also seen as a means of increasing efficiency and accountability, is also defined as the transfer of political, financial and managerial power to decentralized units (Burki et al, 1999:2-3).

Fiscal decentralization is to be transferred to financial resources to local management to meet the responsibility of local tasks (Yilmaz et al, 2012). In other words, fiscal decentralization to meet the duties and responsibilities transferred to local management is shared with the local management of financial resources. Fiscal decentralization has three major elements (Usui, 2007); the responsibility of expenditure with transfer of income to local, transfers from the center to local and the autonomy of borrowing of local governments.

In this study, financial decentralization in Turkey will first be addressed in terms of the size of local governments at macro level. Later on, the differentiation of fiscal localization among local governments on the basis of selected provinces will be analyzed.

2. Literature Review

It is understood that with fiscal decentralization, local governments use expenditure, income and borrowing facilities more in total public resources. When we look at income perspective, the ratio of local income (YKG) collected in any local unit to public income (TKG) collected in that province or region gives us the fiscal level of decentralization (MY) on the basis of country, region or selected government.

$$MYG = (\sum YKG) / (\sum TKG)$$

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For the intergovernmental income distribution, the distribution of responsibilities and expenditures should be made. Intergovernmental expenditure and income distribution can cause some horizontal and vertical inequalities. Financial transfers have an important role to eliminate the vertical and horizontal inequalities.

Financial decentralization has its advantages as well as some disadvantages; (Prudhomme, 1994), (Bird, 1994), (Oates, 1994) the impact of corruption, inadequate knowledge, low quality of local bureaucracy, poor public spending management systems, inability to adapt to technological change and increasing mobility, local inter-regional spillover effect, economies of scale, harmonization of expenditures, central government's justice responsibility.

The implementation of the conventional measures of the degree of fiscal decentralization, expenditure share and revenue share (Oates, 1972) in certain provinces of Turkey, is the basis of this paper.

3. Data and Methodology

Calculations were made for general fiscal decentralization level in Turkey as well as the share of the local government expenditures and revenues in province total expenditures and revenues in the certain provinces of Turkey in this study,. The data of the General Directorate of Public Accounts was used for Turkey in general and for Istanbul, Ankara, Izmir, Diyarbakir, Konya, Sivas, Canakkale and Van.

In terms of expenditures, the level of financial decentralization is calculated as the ratio of the total expenditure of the local government to the provincial total expenditures. Within the province total expenses; the expenses of the central government, the expenses of the social security institution and the expenses of the local government are included. Local government expenditures are considered together with the first level of economic classification in terms of analytical budget classification.

In terms of incomes, the level of financial decentralization is measured as the ratio of the total incomes of the local governments to provincial total incomes.

In order to prevent the duplication of the 5% share of the general budget tax revenues collected within the provincial borders of the metropolitan municipalities with the Law on the Granting of Special Provincial Administrations numbered 5779 and the General Budget Tax Revenues to the municipalities, it is excluded from central government budget revenues in the calculation made on income basis.

The numbers for social security institution revenues are calculated by multiplying the average premium collection income across Turkey by the number of active insured persons subject to calculation.

4. Findings

The level of fiscal decentralization in Turkey is increasing with the changing legal framework, especially since the year 2000. As a percentage of GDP at the point

reached today, local governments' spending amounts reached 5% of GDP, and up to 12% in total public expenditures.

In terms of incomes, there are quite different results between the provinces in the level of financial decentralization and in the per capita local government revenues. The highest level of financial decentralization occurred in Van, Diyarbakır and Sivas provinces at 27%, 25% and 24% respectively. The per capita local government revenues in the same provinces were realized as 0,64, 0,67 and 0,93 thousand TL, respectively, and these figures are considerably lower compared to those of Istanbul, Ankara and İzmir.

In these cases, it is seen that the high level of fiscal decentralization is not caused by the demand of local goods and services, the economic activities are underdeveloped and the central government revenues are low and therefore the financial decentralization level is relatively high.

The fact that the per capita income of local governments in Diyarbakır, Sivas, Konya, Çanakkale and Van are relatively low presents that local governments are more dependent on the center in terms of financial capacity and therefore have limitations in terms of expenditure power from the criteria of financial autonomy.

In terms of metropolitan provinces, it is calculated that the level of fiscal decentralization is relatively lower level, 8% in Istanbul, 10% in Ankara and 9% in İzmir.

5. Conclusion

In Turkey, transfers from central government tax revenues to local governments are essentially unconditional transfers. In this regard, the application of transfer is a matter of financial autonomy of local governments. The main purpose of transfers is to provide vertical equalization between administrations. The objective for achieving horizontal equalization in the transfer system remains very limited, since there is not enough differentiation for municipalities with different levels of development and service needs. As a result, it is considered necessary for the distribution criterion to provide horizontal equality by adding the parameters including the difference of the level of service and the level of development to the location and population base.

Fiscal decentralization rates differ between provinces. Resource sharing in the solution of the inequalities that exist between provinces underdeveloped and developed shows that inadequate vertical and horizontal synchronization policies.

Regarding decentralization theory of Oates, principles such as prioritization of local expenditures by local sources of income and transfers to be made from the center for internalization of externalities, regional inequalities and catching of scale economy in aggregate cannot find enough application in Turkey.

Key words: local authorities, fiscal decentralization, revenue sharing

JEL Codes: H71, H72

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The Relationship Between Budget Deficit and Public Debt in Turkey: The Period of 1970-2016*

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Hasret GENÇ²

1. Introduction

It is generally accepted that the budget deficits have increased the public debt and the increasing public debts have increased the budget deficits by increasing the interest payments. Considering that the budget balance in Turkey has had a deficit every year since 1971, the sustainability of the 1980s and 1990s has been discussed, and the budget deficit has decreased in the 2000s, the relationship between the budget deficit and public domestic borrowing and external borrowing and the investigation of this relationship contribute to the literature.

In this context, the relationship between budget deficits and public borrowing in Turkey during 1970-2016 period is analyzed. The study consists of three parts. The first part deals with budget deficits and financing methods. In the second part, the development of budget deficits and public debts in Turkey has been analyzed. The third section contains the literature summary and the last section contains the findings of the analysis.

2. Concept of Budget Deficit

The budget is one of the social institutions formed to meet the various needs of the people living in society and to regulate the relations between them (Çataloluk, 2008:82). The public budget is a law that gives the state's income and expenditure estimates for the next year, and how to finance the budget deficit if there is a budget deficit and where to use the budget surplus. The budget deficit is the negative difference between the budget revenues and the budget expenditures in a certain period of time (which is usually one year).

3. Development of Public Debts and Budget Deficits in the Post-1970s Period in Turkey

The surface cause of the budget deficits is that the increase in budget revenues –taxes being in the first place- falls behind the increase in budget expenditures. Under this view is the growth of the public sector's place in the economic life due to its tasks.

* This study is based on unpublished M.Sc. Thesis: "The Relationship Between Budget Deficits and Public Debt in Turkey: Period 1970-2014" (Zonguldak, BEÜ SBE, 2015).

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Since the establishment of the Republic, the tasks imposed on the public sector due to economic development have increased public expenditures. But the same speed is not always captured in the increase in public revenues (Tüğen, 1991: 9-17).

The budget balance in Turkey has a deficit since 1971. The ratio of the budget deficit to the GDP has increased rapidly since the 1980s and has risen to 12% in 2001. The budget deficit/GDP ratio has decreased by 2008 due to the structural reforms implemented under the Strong Economy Transition Program and the fiscal discipline to be implemented. While there is an increase in the ratio of budget deficits to GDP by reason of the increase in budget deficits and the decrease in GDP due to the global crisis in 2008, it has started to decrease again as of 2009.

While the public financing requirement was mostly caused by the budget deficits of public economic enterprises in the period before 1980, it began to arise from budget deficits due to the government's involvement in large-scale infrastructure investments after 1980. While applying for debts for budget deficits and debt repayments, domestic borrowing has been used as a basic financing instrument because of the decrease in net outsourcing inflows and the low level of tax revenues which is the state's main source of income and domestic debt stock has increased rapidly (Ulusoy, 2014: 122). Turkey has used domestic borrowing and foreign borrowing to provide alternate financing to get out of the 1994 crisis (Şen, 2004: 5).

With the Inflation Reduction Program implemented in 2000, it was aimed to decrease domestic borrowing by increasing foreign borrowing and replacing it with domestic borrowing, but it was not successful (TCMB, 2002: 13). The increase in the domestic debt in 2001 was also affected by the increase in borrowing rates due to the crisis and there is also the effect of the government domestic debt securities given to the public banks have accumulated duty losses and the banks covered by the Saving Deposit Insurance Fund (SDIF) (Ulusoy, 2014: 137). Since 2003, borrowing has been made mainly on instruments with fixed interest rates within the framework of strategic criteria applied, thus the sensitivity to the interest rate has been reduced and borrowing is mainly made in TL terms, thus reducing the exchange rate risk. For these two reasons, when it comes to 2010, unlike other countries, there was no dilemma about the sustainability of the debt stock, get over from the crisis experienced in 2008 and 2009 (HM, 2011: 21). The domestic debt stock/GDP ratio was approximately 8% in 1970, but increased in the following years as a general tendency and rose to 50% in 2001. The domestic debt stock / GDP ratio declined in the 2000s to about 22% in 2016.

After 1970, foreign debt stocks followed an increasing course. In 2000, foreign debt stock increased by \$ 15 billion compared to the previous year, but when it came to 2002 and 2003, there was a significant increase in foreign debt stock due to the loans from IMF and World Bank. The ratio of external debt stock to GDP has fluctuated. The ratio of external debt stock to GDP, which reached 30% in 2001, followed a declining trend due to the higher GDP growth despite the increase in external debt stock after 2001.

4. Research Subject and Data Set

The subject of the study is to examine the relationship between budget deficits and public debt in Turkey in the period of 1970-2016. The selection of the period 1970-2016 has multiple causes. First of all, since 1971, the public budget has been constantly open. On the other hand, there were many economic crises in Turkey during this period and the most important reason for these crises was the budget deficits resulting from the inadequate increase in budget revenues and/or the excessive increase of public expenditures.

In the study, while budget balance data is selected representing the budget deficit, public borrowing is divided into public domestic borrowing, public external borrowing and total public borrowing. The data set was made real by dividing into the GDP deflator.

5. Analysis Results

In this paper, Johansen Co-integration Test is used to test the long-term causality relationship and VAR Analysis is used to test the short-term causality relationship between the series. When Vector Error Correction Model (VECM) is applied for variables with co-integration relation, the VAR Granger Causality test is applied to test the short-run relationship between the variables with no co-integration relation.

According to the analysis results, there is no co-integration relation between the series of external borrowing and total public borrowing, and a co-integration relation is found between the series of domestic borrowing and the budget deficit.

In the short term, there is no causality relationship between budget deficit and domestic borrowing, and there is a unidirectional causality relationship from budget deficit to external borrowing and a bidirectional causality relationship between budget deficit and total public borrowing. In this case, it can be said that in short-term, budget deficit caused foreign borrowing and total public borrowing while total public borrowing caused budget deficit in Turkey in 1970-2016.

As a result, the ratio of budget deficit to GDP and the ratio of public external debt to GDP in Turkey are lower than in many developed and developing countries and under the Maastricht Criteria, in recent years. Therefore, it can be said that the relationship between budget deficit, public external debt and total public debt in Turkey is sustainable. Public debt and borrowing can be used as a means of achieving economic growth and fiscal stability but it should be kept in mind that financing the budget deficits with tax is a more sustainable policy, because public borrowing is a source of temporary financing.

Key Words: Budget Deficit, Public External Debt, Public Internal Debt, VAR Analysis

JEL Codes: H62, H68, H63, C5

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Possible Developments in Exchange of Information (Eol) with Uncooperative Countries

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1. Introduction

In recent years the whole world started to give the extra weight to the principles of fiscal transparency and information exchange. For the cases where no double taxation agreements existed, new measures were designed: tax information exchange agreements (TIEAs). The new tools were treated as the gateway for the exchange of tax information (Eol) with countries of strong bank secrecy tradition.

The aim of the research is studying whether TIEAs indeed strengthened the international cooperation in the tax information exchange. Looking at the experience of four EU Member States gives an answer to the question whether TIEAs constitute a good tool for ensuring international Eol. The paper formulates some recommendations for tax administrations that can help in more effective Eol with uncooperative countries. It also includes some comments regarding the present use of TIEAs and draws perspectives for the future development of Eol infrastructure.

2. Research Questions

Tax Information Exchange Agreements (TIEAs) gathered momentum in 2002 with the release of the OECD's Model Agreement. They were treated as particularly important tool in cases where no double taxation agreements (DTTs) existed (as DTTs include clauses for information exchange).

As a relatively recent development of the OECD, the measures, allowing for the exchange of tax information with countries of strong banking secrecy traditions, do not have an extensive literature outside OECD-initiated publications and research organisations. TIEAs, however, have become a fixed element in international system of exchange of tax information (Eol). The network of international agreements providing for cross-border tax cooperation has expanded greatly over the past ten years, members of the Global Forum have signed more than 1 600 bilateral agreements since 2005 (TIEAs and DTTs).

The presented research focused on instruments, implemented into the international arena in order to ensure the effective exchange of tax information: TIEAs. The goal of the research was to study, whether these instruments constitute a real tool that enables obtaining foreseeably relevant tax information with so called 'uncooperative' countries.

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The research objectives led to the following set of Research Questions: (1) Do TIEAs constitute a real tool that allows for obtaining foreseeably relevant tax information from offshore financial centres? (2) Do countries with more experience and stronger international position achieve better effects in international EoI? (3) Can TIEAs be sometimes perceived as the first step in the process of strengthening the cooperation between countries?

3. Methodology

In order to achieve the research goals, the analysis of literature and legal acts, as well as the method of deduction have been chosen. Library queries and analysis of available source materials (literature review, papers, reports of international organisations, professionals and NGOs), was followed by interviews with academics and representatives of tax administrations, and – additionally – with investigation of the most recent initiatives undertaken at the international level in respect to exchange of tax information (OECD, G-20, European Union, US). At the same time a comparative analysis have been made, in order to answer the question whether TIEAs really strengthen the international exchange of tax information with uncooperative countries. The qualitative and quantitative queries helped in measuring the effectiveness of the EoI tools.

4. Findings

The research surveyed four EU Member States: Poland, Netherlands, Austria and Germany. It compared the amounts of information exchanged by those States with uncooperative countries, on the basis of TIEAs, in years 2009-2015. The quantitative study was complemented by the qualitative one, with detailed questions regarding the cooperation with third countries, the time-frame and completeness of answers, as well as the possible future changes in the EoI practices.

The analysis of four Member States' experiences proved that TIEAs indeed give new possibilities, as before there were no legal basis at all which would allow for obtaining tax information from uncooperative countries. TIEAs are specifically structured and standardised instruments. As they are based on the Model, they allow for exchanging only particular, well defined information. The uniformity of TIEAs increases their ease of use – it contributes to a better quality of enquires and helps in obtaining information in fast and accurate manner, with no cases of rejections. It is worth mentioning, especially in the light of problems with the delays and quality of information obtained under the DTTs requests. Those findings can give some guidelines for the future process of shaping the exchange of information worldwide system.

Much more information is being exchanged by countries with greater experience, whose activity and relationships with uncooperative countries last for years (Netherlands). For less advanced countries (Poland) the activity in the TIEA area has only just begun. The phenomenon highlights the importance of mutual cooperation between EU tax administrations in the whole EoI process. The possibility of sharing the

experience in exchange of tax information can constitute an important support for less advanced States and can result in smoother implementation of more effective EoI practices.

Previous analysis of the exchange of information agreements as means of combating tax evasion suggested that TIEAs may also be a first step towards concluding more comprehensive tax treaties for the avoidance of double taxation, thus contributing to an increase of foreign direct investment. Indeed, the surveyed countries confirmed that TIEAs can sometimes be perceived as the initial stage in strengthening the cooperation between countries. However, the respondents also stressed, that this issue has to be examined case by case as it strongly depends on the country, its mutual relations plus its economic and political interests. Nevertheless, if concluding TIEAs and their effective use can enhance the future migration towards DTTs, such option additionally proves the importance of analysed tools in developing the system of international relations.

5. Conclusions

In recent years the number of EoI relationships has increased also due to the growing number of states joining the EC/OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters. As the Mutual Convention gives the legal basis for the exchange of information with a big number of countries, and eliminates the need of separate negotiations with each territory, it would be interesting, in future studies, to analyse the prospects of overtaking the EoI bilateral instruments by the multilateral tools. Looking at the real motives of jurisdictions that join the Convention, and analysing, whether the instrument really constitutes a real change in the approach to international EoI (or maybe is just a set of simulated actions) could help to answer the question, whether the shift from bilateral towards multilateral EoI instruments is possible in the future.

TIEAs were projected as an instrument that should allow for starting any relations in EoI with the uncooperative countries. They were treated as a measure directed at tax havens, for years reluctant in revealing the information. The findings of the research prove the important role of TIEAs. Even if there exist a risk of future „cannibalisation” of the TIEAs by the Multilateral Convention and/or other international developments, they have already greatly contributed to the evolution in the States’ approach to the international exchange of information. The opinion: *“why should we exchange the info, it is not of our benefit; it is not our case”* was replaced by the conviction: *“this kind of thinking is overcome now; there are no doubts that exchange of information is a part of a worldwide reality”*. Moreover, thanks to the current use of TIEAs, projecting the future developments in EoI can be more precise.

Key Words: exchange of tax information (EoI), transparency, tax information exchange agreements (TIEAs), tax havens, uncooperative jurisdictions, harmful tax competition

JEL Codes: H2, H26, H7

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