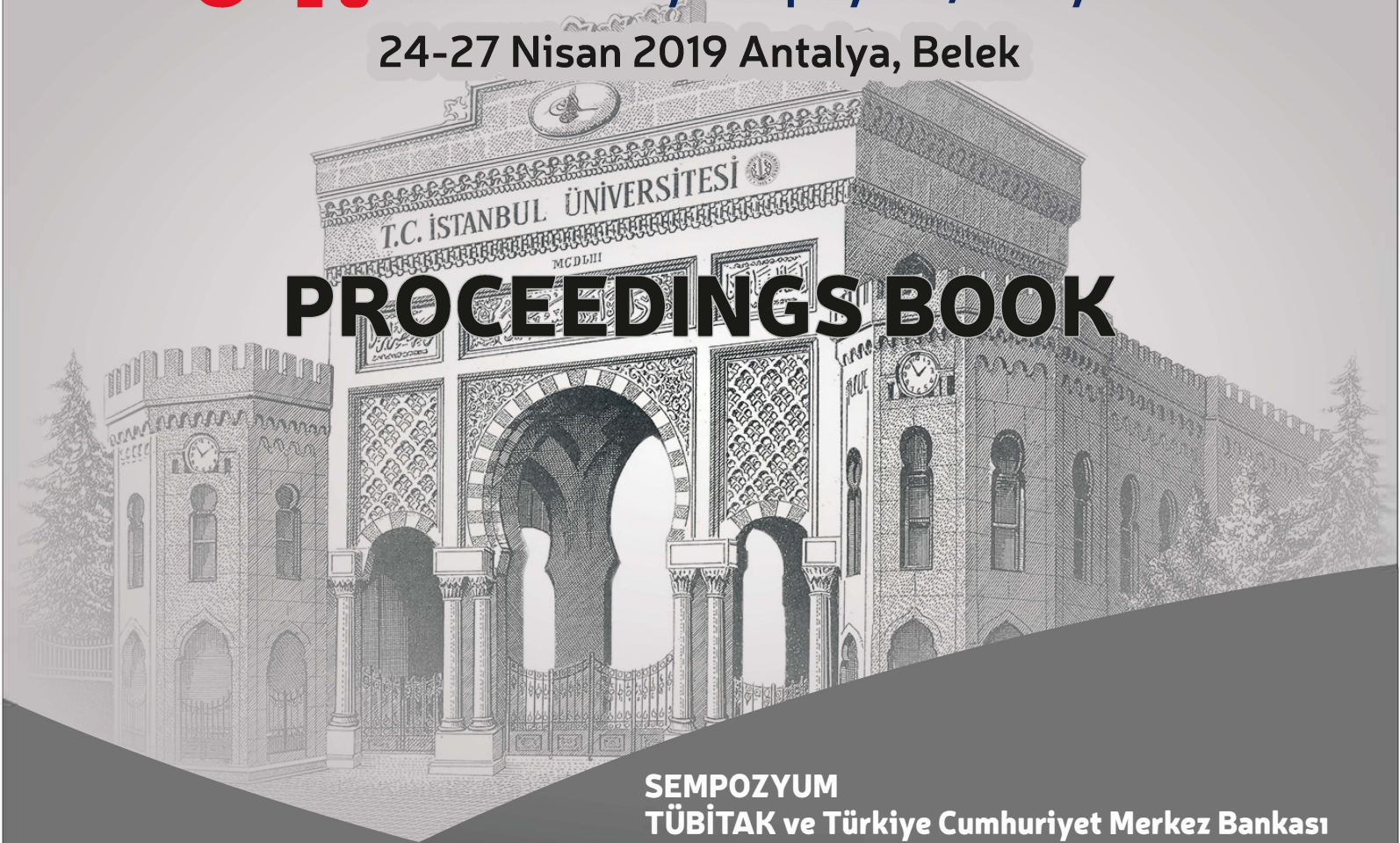
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34. International Public Finance Conference / Turkey

Uluslararası Maliye Sempozyumu / Türkiye

24-27 Nisan 2019 Antalya, Belek



PROCEEDINGS BOOK

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Externalities
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Programme

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Salim Ateş OKTAR	Chair of Organizing Board		
Haluk ALKAN	Dean of Faculty Economics		
Mahmut AK	Rector of Istanbul University		

Coffee Break 11.00-11.15

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Özgün AKDURAN EROL	Gender Budgeting in Local Administiration: İstanbul Beylikdüzü and Eskişehir Odunpazarı Cases		
Pelin VAROL İYİDOĞAN, Eda BALIKÇIOĞLU, H. Hakan YILMAZ	Macro Determinants of Pharmaceutical Spending: Empirical Evidence from OECD Countries		

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Çiğdem Börke TUNALI, Naci Tolga SARUÇ	An Empirical Analysis on The Relationship Between Renewable Energy Consumption, Health Care Expenditures and Carbon Dioxide Emission in The European Union Countries and Turkey		
Erdem ERCAN	Characteristics of Plastic Bag Fee and The Evaluation of This Fee By Means of Fiscal and Environmental Policy		

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Zinnur TUNÇ	Motor Vehicles Tax: Some Problems and Evaluations		

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Funda BAŞARAN YAVAŞLAR	Digital Transformation, Big Data and Right to Privacy of Taxpayers in Turkey		
Nevzat SAYGILIOĞLU	An Important Internal Bleeding in Tax: "Tax Expenditures"		

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Canatay HACIKÖYLÜ, Zeynep KARAL ÖNDER	Strategic Investment Incentives: Turkish Case		
Filiz KESKİN	The Concept of Collective Investment Institution and Specific Tax Advantages Provided for these Institutions in Turkey		
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THE UNDERGROUND ECONOMY AND FINANCIAL DEVELOPMENT THEORY AND EVIDENCES

Salvatore CAPASSO[1]

The underground economy[2] is a major concern in many economies. In contrast to what might be expected, this is true not only for developing but also for developed countries. Estimates for the former put the size of the underground economy at 30-40% of GDP, whilst estimates for the latter put the size at 10-15% of GDP (Schneider, 2007). A large underground sector is not only of economic concern (e.g., due to its potential generate inefficiencies and resource misallocations) but also of political concern (e.g., because of its perception as a measure of a deeply unfair tax system).

Recent years have witnessed a growing body of literature that seeks to understand more fully the characteristics of the shadow economy. Both theoretically and empirically, researchers have sought how best to measure the size of this economy and how best to explain its existence in the first place. The typical focus of attention have been issues such as what motivates firms and individuals not to declare (either fully or partially) their incomes to the government, and what economic and institutional factors might affect this choice.

Answers to these questions may sometimes seem obvious but there is often more than meets the eye. For example, tax evasion is one factor that immediately comes to mind when thinking of an explanation for the underground activity, and some recent evidence lends support for this presumption (e.g., Johnson, Kaufmann and Zoido-Lobatón, 1998a, 1998b; Schneider 1994, 1997; Schneider and Enste, 2000, 2002); yet the data also show that the size of the underground economy differs greatly among regions and economies that display comparable levels of taxation, and that the extent of underground activity is affected little by changes in the fiscal system – observations which suggest that there are other key factors at play. The structure of the labor market is certainly among these, since excessive regulations and complicated administrative procedures in the management of human resources can cause firms to divert their operations from the formal to the informal sector (e.g., Johnson, Kaufmann, and Zoido-Lobatón, 1998b).

Evidence does, indeed, seem to suggest that such is the case: according to some estimates, a one point increase in the labour market regulation index is associated to a 10 percent increase in the

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[2] Henceforth, we will interchangeably use the terms shadow, informal, hidden or underground economy to designate all of those economic activities, and the income derived thereof, that circumvent or avoid government regulation or taxation.

share of the shadow economy. Other factors that appear to be important include the efficiency of the justice system, the provision of public goods and services, the extent of corruption and the general quality of institutions (e.g., Johnson, Kaufmann and Zoido-Lobatón, 1998a, 1998b; Schneider 2007; Schneider and Enste, 2000, 2002). Again, the way in which such factors can take hold needs careful consideration. For example, corruption may be seen as either a substitute or a complement to underground activity: if bribery acts as a form of taxation, then an increase in bribe demands would be expected to increase this activity (e.g., Hindriks et al., 1999; Johnson, Kaufmann and Zoido-Lobatón, 1998a,b); by contrast, if bribery is a means of by-passing official red-tape, then individuals may be attracted more towards the formal sector (e.g., Choi and Thum, 2004).

In spite of all that has been written on the subject, it is somewhat rare to find discussions of the underground economy that make more than a passing reference to the role of financial markets. Yet there are good reasons to believe why the functioning of these markets may be an important factor in determining underground activity. By affecting access to credit, financial market imperfections – in particular informational asymmetries between borrowers and lenders – can sway firms to operate (either fully or partially) in the informal sector. A firm that chooses to do so will be less able to signal its potential earnings and profitability, and therefore less able to signal its capacity to repay loans. As a consequence, the cost of accessing credit will increase.

Financial intermediaries (including banks) usually adopt standardised procedures for screening borrowers and granting loans. These procedures are based on profitability parameters derived from official balance sheets and income tax documentation. If part of a firm's business is hidden, then it is more difficult to meet intermediaries' requirements and more likely that the cost of credit will be higher. For example, income or goods that are concealed in the informal sector cannot be used as collateral to secure loans for doing business in the formal sector, implying that such loans will be less accessible and/or more costly. A firm will therefore trade off the benefits and costs of concealment in choosing its optimal behaviour. This idea has figured in some recent analyses which demonstrate how a firm's decision to operate in the shadow economy is influenced by its ability to obtain credit, the costs involved in this and the efficiency of financial markets (e.g., Autunes and Cavalcanti, 2007; Norris and Feltenstein, 2005; Straub 2005).

Given the above, it is possible to argue that improvements in the functioning of financial markets – i.e., financial development – are an important means of curbing underground economic activity. Such improvements may take a variety of forms, not least of which is the reduction in lenders' costs of gathering information about the characteristics and behaviour of borrowers. Asymmetric information is an especially acute problem in financial markets, leading to difficulties of moral hazard and adverse selection that distort allocations, such as the diversion of resources towards the informal (less efficient) sectors of the economy. As financial markets develop and the problem becomes less severe, better terms and conditions of financial contracts can be offered. Capasso and Jappelli (2013) (CJ2013 later on) formalise this argument by exploiting the theory of optimal contract design in a principal-agent setting. The general idea is that informational asymmetries between borrowers and lenders cause the latter to design contracts in such a way that the former face a probability of being credit rationed. A borrower can reduce this probability by publicly declaring a larger amount of his wealth, but in doing so he faces a

larger tax liability. The aim is to show how the marginal benefit of this choice is positively affected by the degree of financial development.

More specifically, CJ2013 develop a model in which agents are endowed with an initial amount of wealth which is liable to taxation. By declaring only part of this wealth and concealing the remainder, agents are able to reduce their tax liability. On the other hand, wealth serves as collateral against loans that are needed to engage in some lucrative, but risky, investment project. The returns on this project differ across agents because of differences in skills and abilities. Financial intermediaries set the terms and conditions of loan contracts based on the amount of wealth declared, their uncertainty about project outcomes and their limited information about an agent's type. These terms and conditions will be characterised by an interest rate on loans and a probability that a loan will be granted. Given the financial contract structure, both of these features will depend on the amount of collateral that agents put up: specifically, agents will face a lower loan repayment, and a higher prospect of credit, the more of their wealth they declare. Given this, agents choose their optimal level of tax evasion so as to maximise their expected utility. Moreover this choice will depend on the degree of financial development, as measured by the costs of financial intermediation: specifically, that tax evasion falls as the costs of intermediation falls because of the cheaper credit offered by intermediaries which makes it less profitable for agents to hide their income. The result is that financial development is conducive to a smaller size of underground economy.

CJ2013 also provide an empirical test of the hypothesis that financial development cause the size of the underground economy to decrease. By using the Bank of Italy's Survey of Households Income and Wealth (SHIW), the paper builds an index of the underground economy based on individual-level data. The index measures the level of work irregularity among Italian workers from 1989 to 2006, and ranges from 0 (activities are only in the the individual works in the formal sector) to 1 (activity is completely hidden). This index is regressed on an indicator of financial development and other individual and regional variables. The results show that the underground economy is strongly negatively correlated with financial development and that more competitive and innovative sectors display a lower levels of underground activity.

More recently the literature has attempted to investigate the inverse causal relationship between the underground economy and the working of the financial market (Capasso et al. 2015) (CMS2015 later on). The notion is that the level of underground economy interacts with some aspects of the bank-lending process, such as monitoring and bank-firm relationships, and it can affect the banking sector.

In granting credit, banks apply different lending technologies. The choice of the lending procedure is determined by various factors such as the primary information source, screening and underwriting policies and procedures, the loan contract structure, and monitoring strategies and mechanisms (Berger and Udell, 2002). The idea is that lending technologies can also be influenced by the level of shadow economy according to the following mechanism.

Entrepreneurs going underground hide revenues and fabricate their financial accounts primarily to escape the tax burden and social security contributions. Yet by doing so, they become more opaque to potential lenders, and their ability to signal income returns and endowments decreases. The result of this action is an increase in the probability of being credit rationed.

Indeed, financial accounts and tax statements are among the primary sources of information needed by banks to grant credit. These types of documentation represent a relatively inexpensive way to collect information on borrowers (*hard information*) and represent the bulk of what the literature labels as "transaction lending technology" (Berger and Udell, 1995). On the wide spectrum of lending technologies[1], the latter could be considered to be more efficient since they allow standardized procedures by decreasing the intensity of monitoring and screening and, in turn, lending costs. However, transaction lending technologies may be optimally implemented only when the bank primarily faces transparent borrowers. On the contrary, if the bank operates in a market plagued by informal firms that can only provide poor quality hard information, standardized lending procedures might decrease the banks' revenue to the extent that they cannot be profitable. In fact, when facing a large number of underground opaque firms and more intense informational problems, banks may find it optimal to mitigate these informational frictions through more intense monitoring. Specifically, more intense monitoring allows bank to access private information (namely *soft information*) and, consequently, to measure firm's real business and profitability.

From the borrowers' perspectives, a switch from standardized procedures to a more intense monitoring technology is not necessarily damaging. In fact, if on the one hand, this shift may lead to an increase in the cost of credit – higher loan interest rates or additional collateral requirements –on the other hand, it entails a lower probability of being credit rationed. From a lender's perspective, deep monitoring procedures are certainly more costly, but they deliver more accurate information on borrowers. Hence, if the bank operates in an environment in which it is difficult to gather information because of the widespread level of informality, a banking model characterized by more stringent and in-depth monitoring can offer rewards with respect to other apparently less costly banking models. Hence, one can argue that there is a positive relationship between the level of the underground economy and the intensity of bank monitoring.

CMS2015 present both a theoretical model and an empirical test. The model attempts to show how the level of the underground economy can affect bank's optimal decision regarding the level of monitoring to apply. In a simple theoretical framework in which banks optimally choose the lending technology in the presence of informal firms. Banks can either issue credit by employing low cost monitoring procedures (transaction lending technology) or by employing more in-depth investigations into borrowers' creditworthiness (relationship lending technology). Although the former technology is less costly, it is not optimal for use when a bank faces a large number of underground firms. Indeed, as the number of underground firms increases, the level of credit constrained firms increases as well, unless banks compensate for the opacity of informal borrowers through more intense monitoring – for example, by collecting more costly soft information. In other words, to maximize profits, banks trade off the increase in the cost of monitoring with an increase in the volume of credit issued. Therefore, the model predicts that

[1] Berger and Udell (2006) argue that there are a number of distinct transaction technologies used by financial institutions, including financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, and leasing.

given each technology's monitoring costs, the banks will more intensively use relationship lending instead of transaction lending as the number of informal firms grow.

By using data on a large Italian banking group, CMS2015 test model's predictions by means of a quantile regression, and the findings appear to confirm those predictions. In particular, a set of interactions between the shadow economy and the monitoring indicators show that high levels of informality are associated with a more intense use of bank monitoring.

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THE IMPACT OF TAX REGIMES ON THE EFFECTIVENESS OF R&D ALLOWANCES - AN INVESTIGATION OF SEPARATE TAXATION AND FORMULA APPORTIONMENT WITHIN THE FRAMEWORK OF R&D

Gazi Bilal YILDIZ[1] **Hülya ÇELEBİ**[2]

Abstract

This study investigates the effectiveness of R&D allowances within the framework of different tax regimes, namely Separate Taxation (ST) and Formula Apportionment (FA). In order to take the characteristics of R&D activities as well as the importance of the labor in R&D activities into account, a model within the framework of principal-agent setting is designed, where the impact of investments decisions is also investigated. In the model, R&D allowances are represented by means of expenditure-based allowances. Because of the analytical limitations, non-linear optimization and genetic algorithm are used for the investigation of the model designed. The outcomes show significant differences between ST and FA regarding the effectiveness of R&D allowances, impact on the compensation of managers and employees as well as on the welfare of owners (or employers). Under both, with and without R&D, FA enables to achieve a higher total surplus (net profit) compared to ST.

Keywords: Management incentives, Tax allowances, Separate Taxation, Formula Apportionment

JEL: H25, J33, 031

1. Introduction

Because of the significant contribution of R&D to the economic growth and innovation governments use different tools to stipulate and attract the R&D activities or investments in their countries. This paper focuses on R&D incentives within the framework of enhanced-deduction of R&D expenditure, which is one of the most used kind of tax incentives for R&D activities. Here, a juxtaposition is made between Separate Taxation (ST) and Formula Apportionment (FA), where the first mentioned is the widely-used corporate income taxation (CIT) principle, whereas the latter is in practice in USA and Canada and its implementation is intended within the EU. This means a significant geographical enlargement of FA practice. Further, as the R&D activities are characterized by their labor intensity, the compensation packages play also an important role here. The review of literature shows that R&D incentives under FA as well as principal-agent setting have been disregarded so far. This gap arises the question: ‚What is the impact of R&D incentives on the management incentives under ST and FA?‘. In order to answer this question,

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we designed a model based on principal-agent setting within the framework of compensation packages and conducted a non-linear optimization. The outcomes show significant differences between ST and FA referring to the content of compensation packages, their reactions to CIT rates and the net profit.

2. Related Literature

In general, various studies reveal the impact of CIT on the investment decisions. It is to mention that these studies are mainly characterized by their macro-level perspective, where the impact of CIT at intra-firm level has been disregarded so far (see e.g. Buettner et al., 2011; Hellerstein and McLure, 2004). Because of its contribution to the economic growth and sustainability as well as the impact of CIT on the investment decisions (see e.g. Griffith et al., 1995; Hall and Van Reenen, 2000), R&D incentives show an increasing trend used by governments to attract the R&D activities and influence the investment behavior of companies. These tools show a wide range of kinds (such as direct subsidies, input and output-oriented tax incentives, allowances and credits), where however the preferential tax treatment (e.g. enhanced deduction) of R&D expenditures show an increasing trend (see e.g. Apelt et al., 2016). For instance, with its publication, European Commission (2017) amended its proposal for a Common Consolidation Corporate Tax Base (CCCTB) within the EU with the enhanced-deduction of R&D. In general, CCCTB proposal intend CIT based on 1) a common set of regulations, 2) tax base allocation based on Formula Apportionment, and 3) cross-boarder loss offset. This means a switch from the widely used practice of the source-based principle, namely Separate Taxation (ST), which is based on the regulations of jurisdictions, where the corporation is resident. This switch to FA and its appropriateness caused intensive discussions (see e.g. Altshuler and Grubert, 2011; Buettner et al., 2011; Hellerstein and McLure, 2004; Mueller, 2010). Further the implementation of FA will lead to a geographical enlargement of FA practice from USA and Canada to the European Countries. The following two figures gives an overview of ST and FA (within the CCCTB framework) practice.

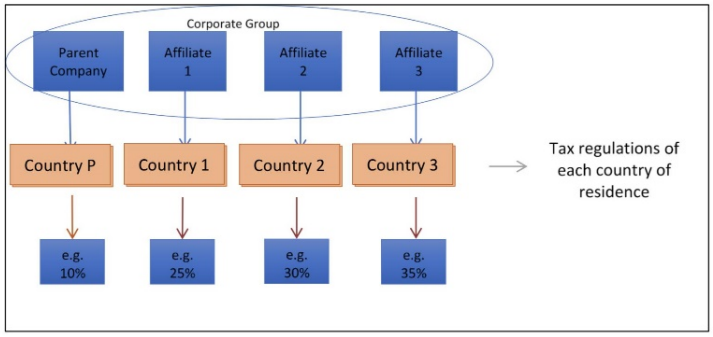


Figure 1. Overview steps of ST

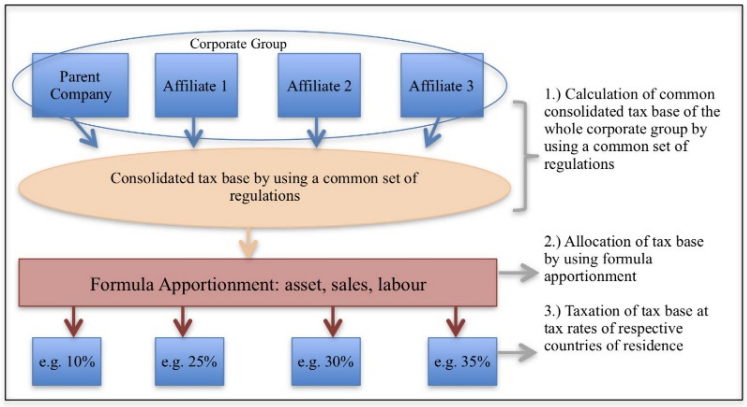


Figure 2. Overview steps of FA (Example of FA within CCCTB (Common Consolidated Corporate Tax Base)

Further, R&D activities are characterized on one hand by their labor intensity (see e.g. Appelt et al, 2016; D'Andria, 2017) and on the other hand by their information asymmetry and uncertainty. These aspects of R&D impact the behavior of owners (employers) as well as of managers (employees). Here, the principal-agent setting enables to take these characters of R&D activities and investments into account. In general, studies investigating the impact of CIT at intra-firm level, namely management compensation packages within the principal-agent setting, are characterized by their focus on ST (see e.g. Voßmerbäumer, 201; Göx, 2008). The review of literature reveal that only one study, namely D'Andria et al. (2016), investigates the impact of R&D incentives within the principal-agency theory. However, this focuses, as in case of other studies, on ST and takes only wages into account, where the investments remain disregarded.

3. Model

In order to answer the research question, we designed a model based on principal-agent setting, which enables us to take the trends and characteristics of R&D activities into account. The model consists of a multi-jurisdictional corporation (MJE) (principal) with two agents in two different counties (managers or employees). The agents bring output of x_i and receive compensation of w_i, which are formulated as in the following equations:

$$x_i = a_i(p_i + q_i b_i) + \varepsilon_i \qquad \varepsilon_i \sim N(0, \sigma_i) \tag{1}$$

$$w_i = v_i x_i + f_i \tag{2}$$

Here, p_i represents the productivity of agents; a_i the effort of agents; q_i the marginal productivity of investment, b_i the amount of investment and ε_i the normally distributed noise term.

Because of the risk and effort averse behavior of agents, the certainty equivalent function $(CE(w_i))$ represents their objective function formulated as:

$$CE_i = (x_i v_i) - \frac{a_i^2}{2} - \frac{r_i}{2} v_i^2 \sigma_{x_i}^2 \quad (3)$$

On the other hand, the principal is not able to observe the agents' effort, however she is informed about their objective function $CE(w_i)$ as well as their constraints of participation and incentive, formulated as in the following two equations:

$$CE_i(w_i) > u \quad (4)$$

$$a_i^* = \underset{x}{argmax}\, CE_i(w_i) \quad (5)$$

The aim of the principal is maximize her objective function (TS) by determining the optimal amount of b_i and v_i in the compensation packages of agents.

When the CIT is not taken into account, TS is formulated as in Eq. (6), whereas Eq. (7) represents TS with CIT under ST without R&D allowances and Eq. (8) with R&D allowances (given byY_i):

$$TS = \sum_{i=1}^{2}(x_i - w_i - z_i) \quad (6)$$

$$TS_{ST} = \sum_{i=1}^{2}[(1 - t_i)(x_i - w_i - z_i)] \quad (7)$$

$$TS_{ST_Y} = \sum_{i=1}^{2}\left[(1 - t_i)(x_i - w_i - z_i) + \left(Y_i t_i (w_i + z_i)\right)\right] \quad (8)$$

Whereas, when TS of principal is subject to taxation under FA, the factors for the tax base allocation have to be determined firstly. Here, we used two equally weighted formula of wages (w_i) and assets (represented by b_i) given as in the following:

$$fa_i = \frac{1}{2}\frac{w_i}{\sum_{i=1}^{2} w_i} + \frac{1}{2}\frac{b_i}{\sum_{i=1}^{2} b_i} \quad (9)$$

The objective function TS is reformulated as in the following, when no R&D incentives are provided:

$$TS_{FA} = \sum_{i=1}^{2}[(1 - t_i fa_i)(x_i - w_i - z_i)] \quad (10)$$

In case of R&D incentives, the tax base is calculated based on the following equation:

$$TBase_{FA_Y} = \sum_{i=1}^{2}[(x_i - w_i - z_i) - (Y_f(w_i + z_i)) \quad (11)$$

Hence, under FA TS is reformulated as in the following:

$$TS_{FA_Y} = \sum_{i=1}^{2}[(x_i - w_i - z_i) - (t_i f a_i) TBase_{FA_Y}] \quad (12)$$

4. Numerical Analysis

As a closed-form solution of the model is limited (esp. under FA, under ST the dependency of b_i on v_i and vice versa) we conducted a numerical analysis for the model represented above. Here we used the following parameters:

$p_i = 2;\ \ \sigma_i = 2;\ \ c_i = 0.5;\ \ q_i = 1;\ \ r_i = 1;$

The outcomes of our analysis show that neither the compensation package (v_i) and nor the investment (b_i) are impacted by CIT under ST. By contrary, FA leads to a decrease of (v_i) in the high tax country, and hence offers a higher v_i in the low-tax country compared to ST (see Table 1)[1].

Table 1. Without tax allowances $t_1 = 0.3, t_2 = 0.1$

	Without CIT		ST		FA	
$v_1 \mid v_2$	0.1667	0.2	0.2	0.1668	0.186	0.1734
$b_1 \mid b_2$	1	0	0	1	0	1
$w_1 \mid w_2$	0.6253	0.4	0.4	0.626	0.346	0.6765
$f_1 \mid f_2$	0.3752	0.24	0.24	0.3756	0.2076	0.4059
$a_1 \mid a_2$	0.5	0.24	0.4	0.5	0.372	0.5202
$x_1 \mid x_2$	1.5	0.8	0.8	1.5012	0.744	1.5606
$fa_1 \mid fa_2$	0	0	0	0	0.1692	0.8308
$tb_1 \mid tb_2$	0	0	0.12	0.0875	0.0519	0.0849
$TS \mid TB$	1.025	-	0.8425	0.2075	0.8852	0.1368

The following figures represent the outcomes across different CIT rates. As shown in Figure 5, FA leads always to a higher TS, the compensation and its components are more sensitive under FA than under ST (see Figures 4 and 5).

[1] Because of the identical agents assumptions, in case of Without CIT an inverse representation of the outcomes related to v_i and b_i is possible.

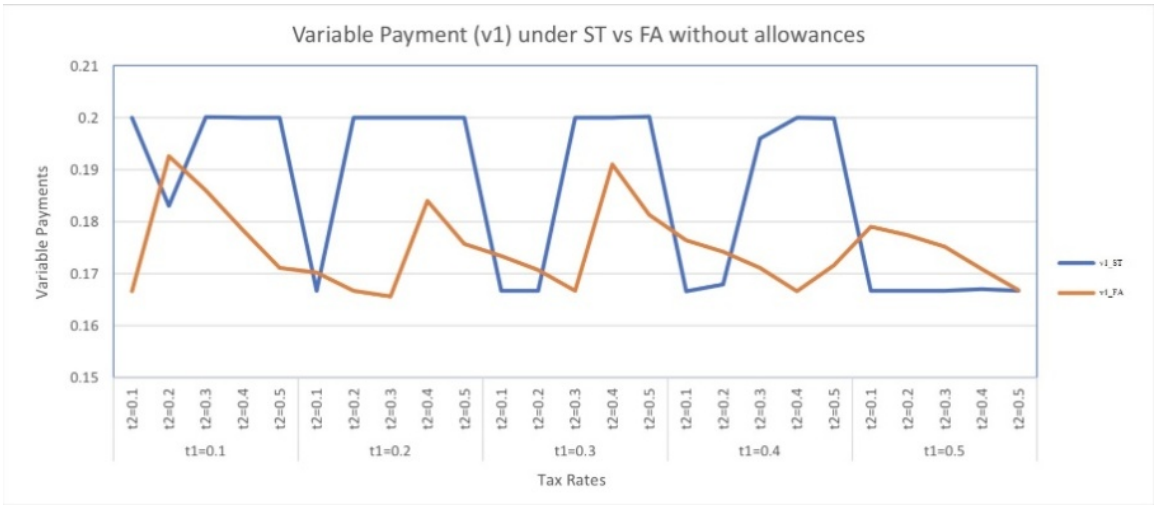


Figure 3. v_1 under ST vs. FA

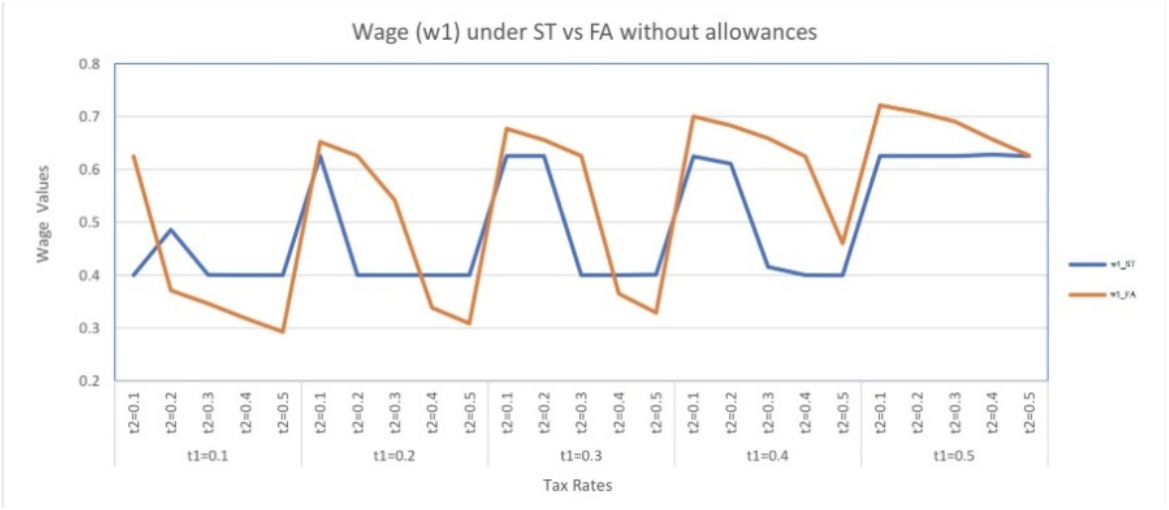


Figure 4. w_1 under ST vs. FA

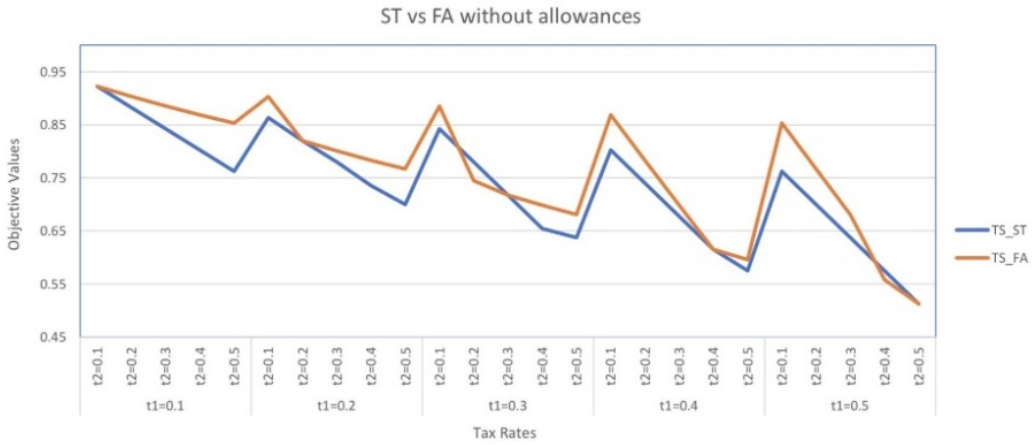


Figure 5. TS under ST vs. FA

Also when taking R&D incentives into account, FA enables the principal to achieve a higher TS by optimally designing the compensation packages and investment decisions (see Table 2):

Table 2. With tax allowances $Y_i = 0.25, t_1 = 0.3, t_2 = 0.1$

	ST		FA	
$v_1 \mid v_2$	0.1907	0.2058	0.1993	0.1793
$b_1 \mid b_2$	1	0	0.0001	0.9999
$w_1 \mid w_2$	0.8182	0.4235	0.3972	0.7233
$f_1 \mid f_2$	0.4909	0.2541	0.2383	0.434
$a_1 \mid a_2$	0.5721	0.4116	0.3986	0.5379
$x_1 \mid x_2$	1.7163	0.8232	0.7972	1.6136
$fa_1 \mid fa_2$	0	0	0.1773	0.8227
$tb_1 \mid tb_2$	0.1008	0.0294	0.0359	0.0554
$TS \mid TB$	0.8815	0.1302	0.9301	0.0913

Across different CITand R&D incentive rates, the following two figures (see Figures 6 and 7) show that compensation packages under FA and ST vary from each other, however this impacts the TS and tax burden (TB) of principal to a smaller extent (see Figures8 and 9).

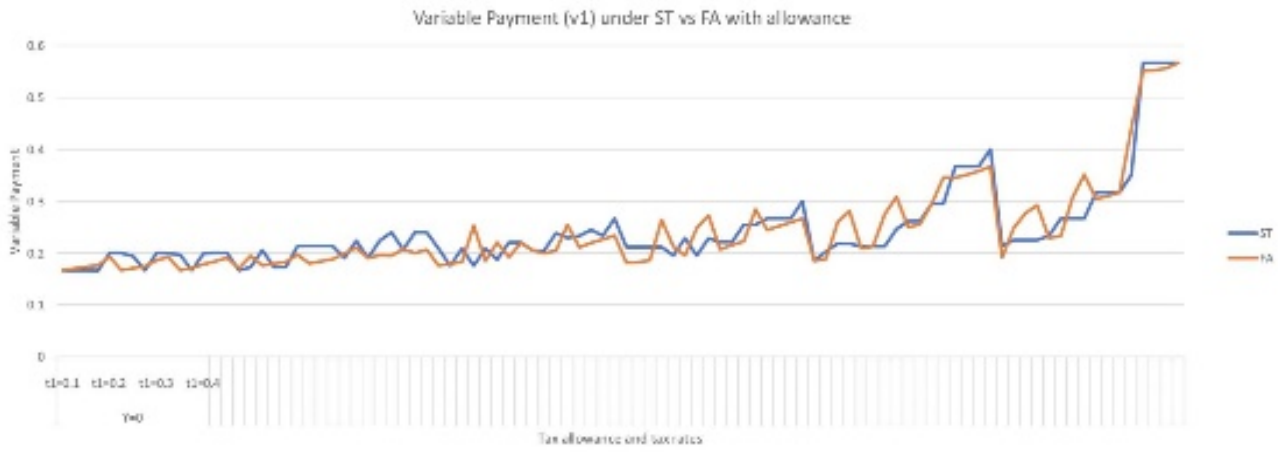


Figure 6. v_1 under ST vs. FA with $Y_i = \{0,1\}$

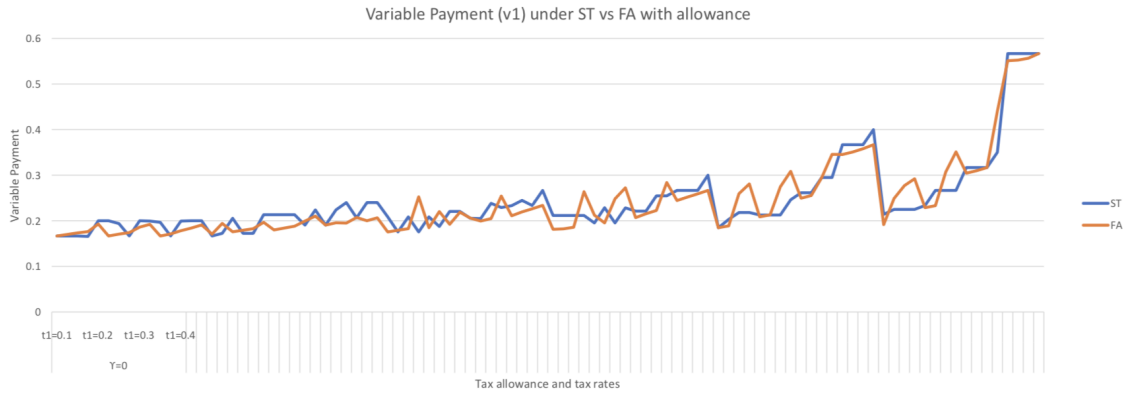


Figure 7. w_1 under ST vs. FA with $Y_i = \{0,1\}$

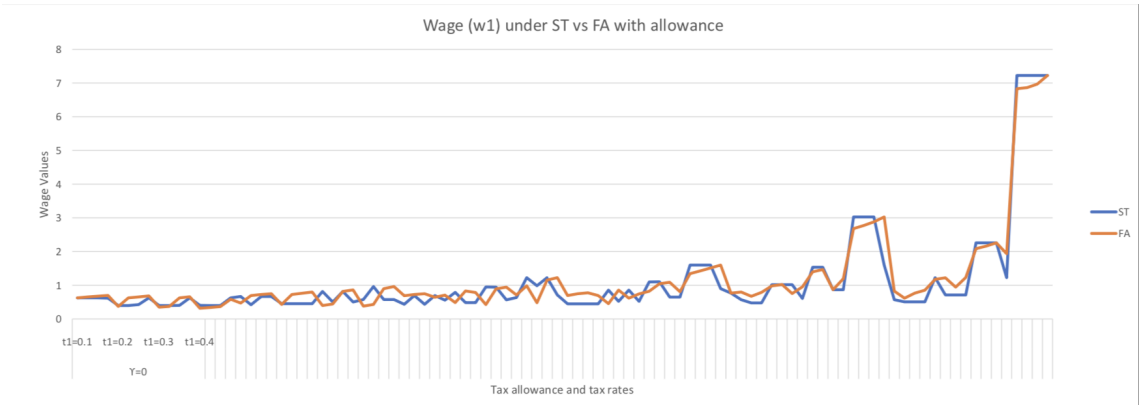


Figure 8. *TS* under ST vs. FA with $Y_i = \{0,1\}$

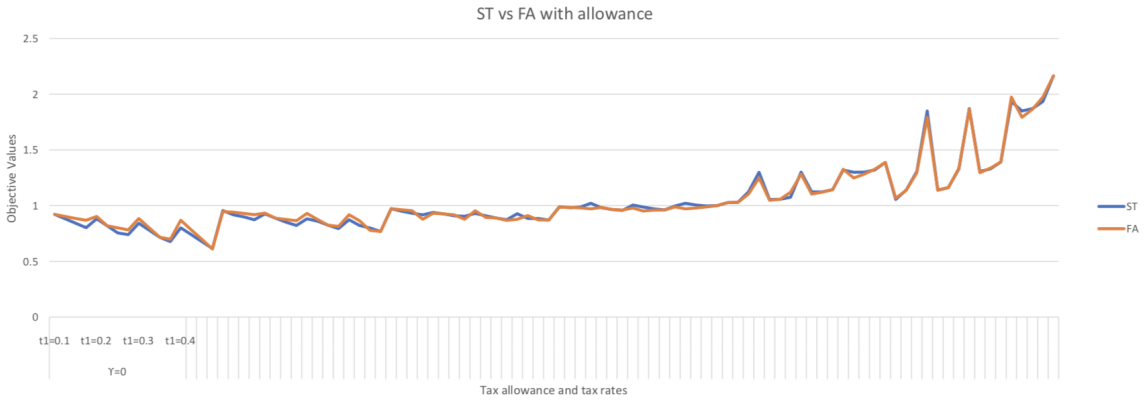


Figure 9. *TB* under ST vs. FA with $Y_i = \{0,1\}$

5. Conclusion

This study aimed at analyzing the impact of different tax regimes, namely ST and FA, on the management compensations and investment decisions within the framework of R&D activities. Here, we investigated the impact of R&D allowances under different tax regimes. Because of the higher practical relevance, R&D allowances were represented by expenditure based allowance (enhanced deduction of R&D expenditures) in the model designed. Further, the model is based on principal-agent setting. Because of the limitations on analytical solvability a numerical analysis is conducted within the framework of non-linear programming. Here, we implement genetic algorithm.

The outcomes show, that CIT shows neutral impact under ST when no R&D incentives are offered. However, both the agents' as well as the principal's welfares show higher dependency on CIT rates under FA. An interesting outcome is, that in case of R&D incentives agents' welfare (w_i) is impacted by CIT to a wider range under FA than it does under ST. However, this gap in w_i leads to lower differences in welfare (TS) of principal.

This work contributes to the area of international taxation and existing literature by extending the principal agency-theory and R&D incentives to the framework of FA. Further, in contrast to the existing literature, we applied non-linear optimization and genetic algorithm in order to investigate the model designed.

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PUBLIC FINANCE - THE IMPACT OF RECREATIONAL VOUCHERS ON PUBLIC FINANCES AND SUPPORT FOR DOMESTIC TOURISM*

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Abstract

The paper provides information on the importance of introducing an allowance for recreation in the Slovak Republic. The mentioned allowance has become such a new expense for employers, i.e. for the state and the private sector, after the approval of the National Council of the Slovak Republic from 1 January 2019, as an amendment to the Tourism Promotion Act. Paper outlines the goal, the motive for adopting the amendment to the Act on Tourism in the form of an allowance for recreation and describes the various conditions necessary for the use of the allowance but also various possibilities how this allowance can be used by the employees. At the same time, it specifies the impact of the allowance for recreation as an expense in one of the state institutions, namely the education sector, together with proposed resolution of covering the costs related to it that were not allocated in the budget of University of Economics in Bratislava. At the end of the paper the results of the survey on recreational allowance from the perspective of both employees and employers are shown, providing further details on opinions about the recreational allowance, awareness about the details and plans of implementations in companies. It could be concluded that further dissemination of information about the allowance for recreation is still necessary.

Keywords: Public finance, domestic tourism, state support, recreational vouchers

1. Introduction

The topic of public finances is well known on a daily basis. This is because public finances are an important part of every state, as they ensure the country's functioning. Every citizen should be aware of the revenue and expenditure that constitutes the state budget. Public finances affect almost every person, whether directly or indirectly, for example, in the form of taxes that are part of them, and we pay them as working employees, or we come in contact with them at regular purchases. They are also included in public spending, which in part is directed at wages of employees in the state and public sectors. Thus, we can say that on the one hand we contribute to the state budget and public budgets, in the form of taxes, and on the other hand, public goods and public administration of the state apparatus are provided from the state and public budgets.

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Therefore, it is up to the state how it spends public funds, but at the same time it also manages the private sector through laws and coordinates its incomes and expenditures.

In addition to the incentive to motivate the population to spend their holidays in Slovakia, the law, through the introduced tourism financing instruments and allowance for recreation, also responds to the fact that hotel-type accommodation facilities in Slovakia are among the lowest rates of occupancy among European countries. According to available statistics, in the weakest seasons, the use of these facilities is only around 20%, and rarely exceeds 40%. This, while maintaining the status quo, poses a threat of redundancies for workers working in accommodation services and services related to these services. The introduction of the proposed measures is expected to have a positive impact on tourism businesses, with increased demand for accommodation and related services, the development of marginalized regions and the creation of new jobs in tourism and related industries, increased traffic and awareness of the domestic tourism.

1.1. Defining Public Finances on National Level and in The World

Most of the world's economies operate on a combination of a market economy, an economy that is affected by market mechanisms, combined with certain state interventions that help to guide and correct market developments. The reasons why economies operate like this are market failures that the market mechanism alone is unable to solve. These are in particular imperfect competition, the existence of monopolies, market externalities and unemployment (Schultzová et. al., 2007: 9).

The existence of public finances is also important because most of the world's economies are based on a market economy. And it is important to coordinate the market economy by interventions by the state, where the public sector is funded by public finances.

The definition of the public sector shows that public finances are one of its important components. One of the first to define public finances was Adam Smith, who applied a household management system to them. Later, R. A. Musgrave defined the concept of public finance as a complex, with public revenue and public spending processes at its centre. By contrast, Hamerníková defines public finances from a narrower and broader perspective. In a broader sense, public finances are a tool through which public policy is implemented. In the narrower sense, under public finances are meant the monetary relations that arise in connection with the creation, distribution and use of funds linked to the activities of public institutions. (Sivák, 2007: 56-57).

Public Finance is the branch of economics that studies the taxing and spending activities of government. The term is something of a misnomer, because the fundamental issues are not financial (that is, relating to money). Rather, the key problems relate to the use of real resources. For this reason, some practitioners prefer the label public sector economics or simply public economics. Public finance encompasses both positive and normative analysis. Positive analysis deals with issues of cause and effect, for example, “If the government cuts the tax rate on gasoline, what will be the effect on gasoline consumption?” Normative analysis deals with ethical issues, for example, “Is it fairer to tax income or consumption?”

Modern public finance focuses on the microeconomic functions of government, how the government does and should affect the allocation of resources and the distribution of income. For the most part, the macroeconomic functions of government - the use of taxing, spending, and monetary policies to affect the overall level of unemployment and the price level - are covered in other fields (Rosen, 2004: 252).

When examining public finances, it is also necessary to be familiar with the environment, and therefore we examine it from a macroeconomic and microeconomic perspective. The macroeconomic approach examines the impact of public finances on core macroeconomic variables, such as GDP, as public expenditure, as one of the components of public finances, is one of the main components of GDP, as opposed to a microeconomic approach that examines the impact of public revenues and spending on economic behaviour.

Public finances are used to finance the public sector but can also be seen as one of the economic sciences. The subject of its research are the finances of the state, organizations and the population (Gruber, 2011: 3).

The balance of public finances is influenced by economic, political, organizational and technical factors (Rosen, 1992: 290).

1.2. Public Finances in The Form of An Allowance to Recreation in Slovakia

Slovakia has good conditions for tourism development. The most important factors are the first-class natural conditions - nature reserves, a number of mountains and water areas, and also numerous historical monuments.

In October 2018, the National Council of the Slovak Republic approved, by a number of amendments, allowances for recreation and so-called “recreational vouchers”. Recreation allowances and recreational vouchers have become a reality since 1st of January 2019, when changes to approved regulations came into effect.

Companies have so far provided recreation allowances only within the framework of a package of above-standard benefits paid from the social fund or from profits. According to statistics, the benefits for recreation were not so popular. And even when the recreation allowance was used, more than 59% of the value was used for foreign tours from travel agencies.

Allowance for home recreation was used by only 4% of employees in the average value of 210 euro. Other employees use benefit budgets for other benefits such as health, sports, culture and foreign holidays. Approximately 60% of employees from companies with more than 49 employees will start using the home recreation allowance after the introduction of the vouchers. The remaining 40% will not use recreational vouchers because they either do not work in the company for more than 2 years or will not be interested in recreational vouchers.

Changes from 1 January 2019 should increase the incentive for economically active residents and their immediate family members to spend their holidays in the Slovak Republic under financially favourable conditions.

The introduction of this new institute expects a positive impact especially on economically active inhabitants of the Slovak Republic achieving lower disposable income, who could not afford even one recreation per year. These residents, including their closest family members, should thus be able to afford at least one recreation per year needed to regenerate their physical and mental strength and improve their quality of life.

1.2.1. Definition of The Law

Amended Act no. 347/2018 of Collection of laws with effect from 1st of January 2019 amends and supplements Act no. 91/2010 Coll. on promoting tourism and modifies certain laws.

The aim of the amendment is to support domestic tourism through the introduction of new financing instruments for tourism development, the introduction of a new institute – an allowance to employee recreation, into Act no. 311/2001 Coll. of the Labour Code, as amended (hereinafter referred to as the "Labour Code"), by extending the application of tax expenditures for self-employed persons - taxpayers with income pursuant to § 6 section 1 and 2 of Act no. 595/2003 Coll. on Income Tax, as amended (hereinafter referred to as the "Income Tax Act") - for recreation expenses.

The allowance for recreation of employees was introduced into the Labour Code, because there is currently no targeted systemic tool to support domestic tourism in the Slovak Republic aimed at economically active population. States where a similar support system is already in place (France, Hungary and Italy) show the highest domestic participation on domestic private recreation trips, confirming the effectiveness of this domestic tourism support system. On the contrary, the results of European Commission surveys of EU citizens' preferences for tourism from 2015 show, that among the EU countries in 2014, only 33% of vacationing Slovaks preferred domestic holiday over holidays abroad. At the same time, approximately half of these recreants in Slovakia did not look for typical seaside destinations, but for destinations for which the Slovak Republic also has very good conditions (nature, wellness, gastronomy, culture, sport, etc.).

One of the regulations, which, together with the Labour Code, was amended due to contributions to recreation, was Act no. 595/2003 Coll. on Income Tax. From the employee's point of view, the recreation allowance provided to the employee by his employer will be exempt from income tax.

This means that the amount that the employer provides to the employee as a recreational allowance will not be taxed, it will be a net income and the employee, and the employer will not pay health and social insurance from the allowance.

For the employer, the recreation allowance is a tax expense that will reduce his income tax base. Therefore, the recreation allowances provided in sum of more than 55% of eligible expenditure and more than € 275 per year will no longer be a tax expense for the employer.

1.2.2. Conditions of Recreational Vouchers

Conditions for the compulsory provision of a recreation allowance for the employer:

The employer is obliged to provide a recreation allowance only under the following three conditions:

- the employer employs more than 49 employees (the condition on the employer's side is not assessed on the date of beginning of the recreation, but the average number of employees employed in the previous calendar year is decisive);
- the employee's employment relationship with the employer lasts continuously for at least 24 months and
- the employee will apply for the allowance.

According to the Labour Code, employers employing up to 49 employees (1 - 49 employees) have the possibility to provide their employees with a recreation allowance under the same conditions and to the same extent as employers employing 50 or more employees are obliged to. Thus, for employers with a staff of 49 or less, the provision of recreation allowances is voluntary.

Conditions for entitlement to a recreation allowance for an employee:

- the employee must have an employment relationship with the employer for a continuous period of at least 24 months (contractors of services are not entitled)
- an employee can apply for a recreation allowance at only one employer per calendar year,
- the fulfilment of the conditions for granting an allowance for recreation is assessed on the day of the beginning of the recreation.

Recreation allowance amount:

The recreation allowance is 55% of eligible expenditure, but not more than 275 euros per calendar year.

Method of providing the allowance for recreation:

- upon presentation of accounting documents – the employee undergoes a recreational stay; pays for his stay from their own funds; saves the accounting documentation form the stay = invoices, which he/she delivers to his employer within 30 days from the last day of recreation; employer then reimburses him 55% of the expenses, however the maximum amount of reimbursement is 175 euro. (provided that expenditures were eligible),

Invoice that is provided to the employer:

- must be issued exclusively by the accommodation facility located in the SR
- must include the name of the employee
- must include the price per stay
- must include the date of stay
- must be for at least 2 or more nights, or for a package for at least 2 nights stay.

- In the form of a recreation voucher – this decision is left to the choice of employer. According to the explanatory report to the amendment to the Act on Promotion of

Tourism, this system is managed similarly as the system of catering support through meal vouchers. The system foresees the use of the already established network of entities operating in the market for meal vouchers, while the state will not need to build any additional payment systems or organizational structures. The recreation voucher has in terms of introduced Act § 27a of the Act on Promotion of Tourism fixed validity until the end of the calendar year in which it was issued.

Possibilities of using the allowance for recreation:

- tourism services related to accommodation for at least two overnight stays in the Slovak Republic
- residential package containing accommodation for at least two overnight stays and catering services or other services related to recreation in the Slovak Republic,
- accommodation for at least two overnight stays in the Slovak Republic, which may include catering services,
- organized multi-day activities and recovery events during school holidays in the Slovak Republic for a child of an employee attending elementary school or one of the first four years of gymnasium with eight-year education plan or another child living with an employee in a common household (these can be children's summer camps as well as multi-day children's camps, where the parent brings the child in the morning and picks it up in the afternoon).

1.2.3. Entitlement to Allowance for Recreation in State and Public Administration with An Emphasis on Education

The allowance for recreation in the scope and under the conditions laid down by the Labour Code also includes civil servants, members of the Police Corps, members of the Slovak Information Service, members of the National Security Office, members of the Prison and Judicial Corps, customs officers, members of the Fire and Rescue Service, members of the Mountain Rescue Service, professional soldiers and employees working in the public interest.

Schools and school facilities do not have funds for recreation allowances of their employees in their budgets. Representatives of the Ministry of Finance of the Slovak Republic, the Ministry of Education, Science, Research and Sport of the Slovak Republic and the Chairman of the National Council of the Slovak Republic were asked to solve this problem.

For this reason, the Ministry of Education is preparing a calculation of the financial impact of recreational allowances for school staff in the transferred state administration and for higher education institutions and directly managed organizations that will be submitted to the Ministry of Finance. In the state budget, a reserve of 400 million euro is created for legislative changes in 2019.

It is therefore important that the schools and educational establishments concerned receive funding to contribute to recreation in the form of surplus-purpose funding. The chairman of the

National Council of the Slovak Republic perceives this request positively and said that the finances for this purpose will be redistributed from the state budget by the end of April 2019.

The subsidy is intended for employees of the state and public administration, which also includes education employees. In addition, negotiations were held at the highest level with a representative of the Government of the Slovak Republic and the Confederation of Trade Unions of the Slovak Republic.

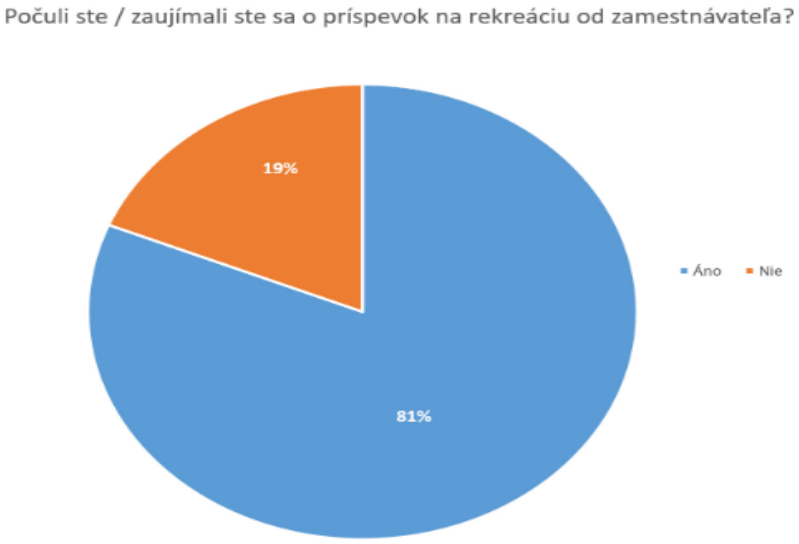
The University of Economics in Bratislava (EUBA) has a budget of € 12,000,000 for 2019. It expects € 2,000,000 from business activities. A € 300,000 reserve was created for the recreation allowances and the EUBA asked the government to pay it in the form of a special-purpose subsidy.

1.2.4. Survey on Recreational Vouchers

A total of 2,723 employees and 355 employers participated in the survey, which ran from 11 to 13 January 2019.

From a total of 2,723 employees:

Figure 1. Have you heard of/ were interested in allowance for recreation from your employer?



Source: ZDROJ

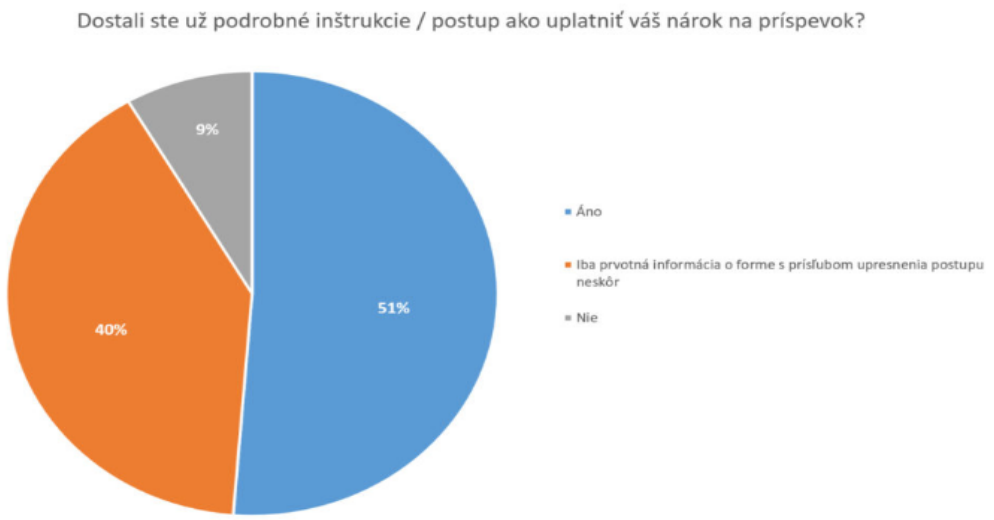
- 81% of employees have already heard of or were interested in the recreation allowance.

However, as much as 82% of employees did not receive information about the possibility of receiving a recreational allowance **from their employer**.

Of the 18% of employees who were given information on the possibility of a recreation allowance:

- 51% of employees have **already received detailed instructions** on how to claim the allowance

Figure 1. Have you received detailed instructions / guidance how to apply for your allowance?



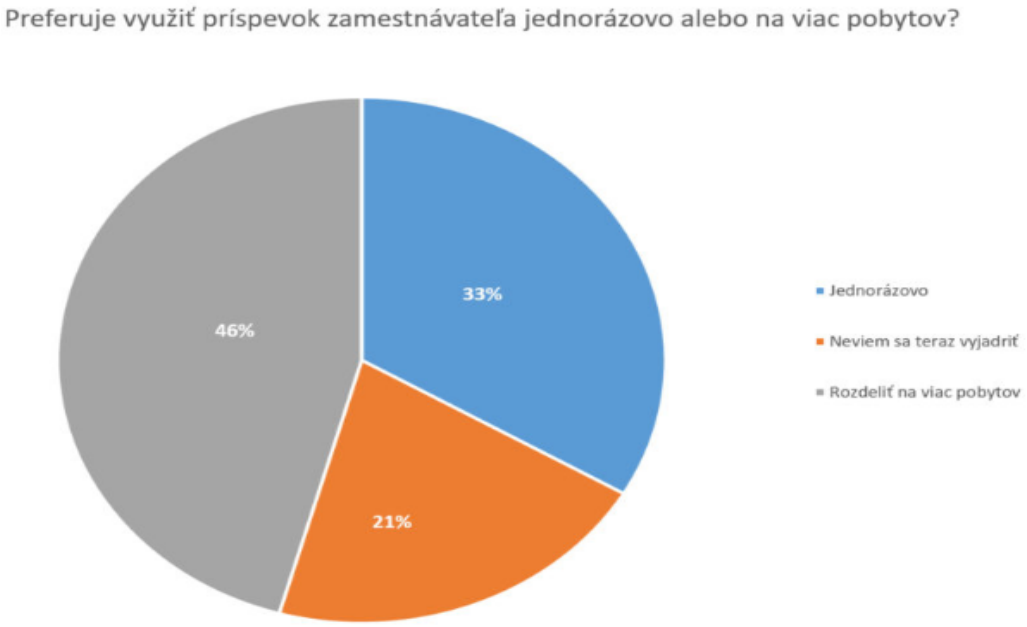
Source: ZDROJ

- 40% of employees received *only initial information* on the use of the recreation allowance with the promise of further information later
- 9% of employees said they have not yet received *detailed* instructions.

Of the surveyed employees:

- 46% of staff plans to use the allowance for multiple recreations

Figure 2. Do you prefer to use the allowance at once or to divide it into multiple recreations?



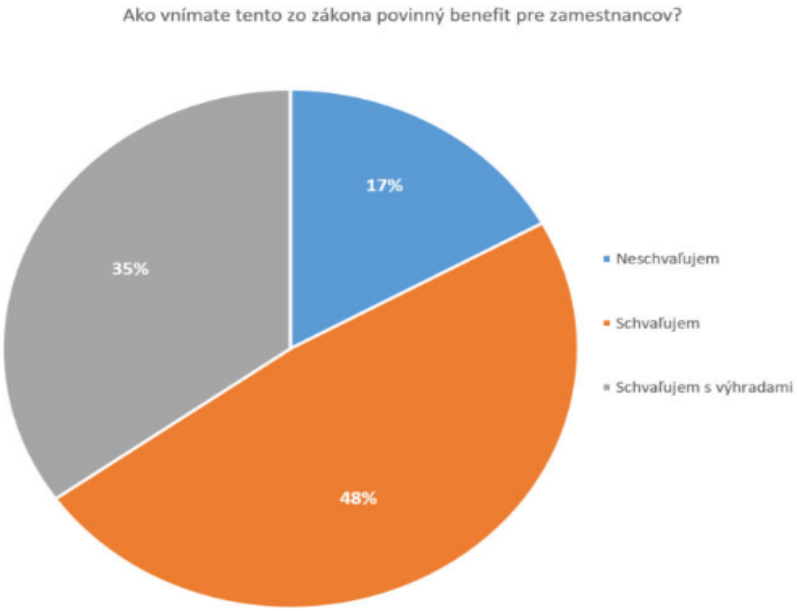
Source: ZDROJ

- ➢ 79% of respondents is planning to use the maximum value of the allowance from the employer (275€)

Of the total of 355 employers:

- ✓ 48% of companies approve a new statutory benefit for employees, 35% approve, but have some reservations. 17% of employers do not approve the statutory benefit.

Figure 3. How do you perceive this statutory employee benefit?

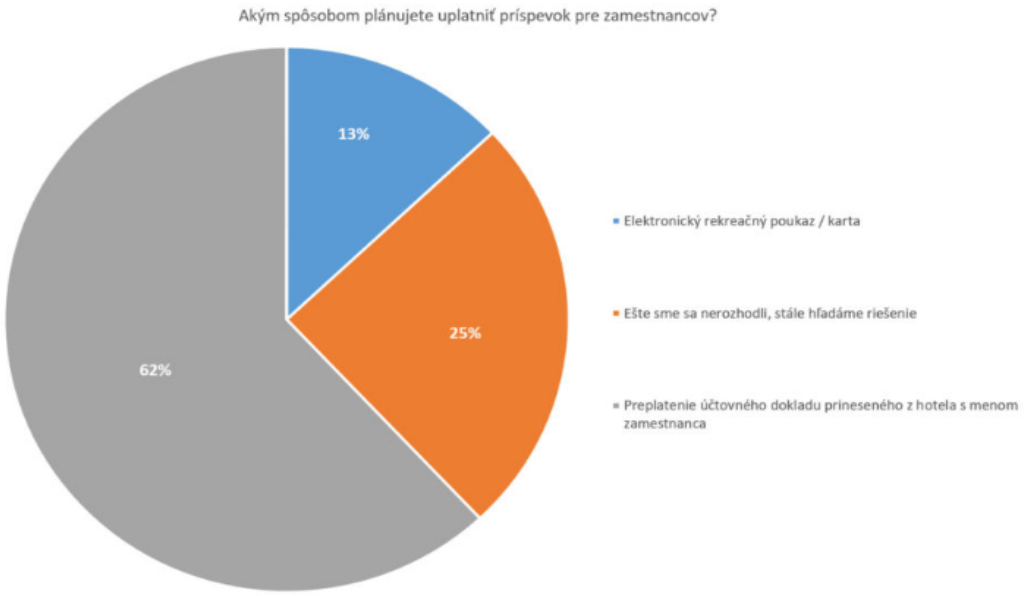


Source: ZDROJ

- ✓ 66% of the surveyed companies employ 50 or more employees.
  - 68% of companies employing 49 or fewer employees plan to provide this benefit on a voluntary basis, even if the law does not oblige them to.
- ✓ 33% of all employers surveyed plans to provide benefits beyond the law, e.g. to employees who are employed for less than 2 years.

- ✓ 76% of employers have already dealt with the form of recreation allowance, while 62% of employers prefer to reimburse accounting documents delivered to them by employees. Only 13% of employers plan to provide electronic recreational vouchers.

Figure 4. In which way do you plan to implement the allowance for the employees?



Source: ZDROJ

- ✓ 36% of surveyed employers estimates that the number of employees who will use the allowance for recreation will exceed 50%.

2. Conclusion

The paper has analysed the aspects, motives, conditions and possibilities of usage of newly legally established allowance for recreation for companies with over 49 employees, that was passed by Slovak national Council with effect from 1st of January 2019. The data from a survey conducted on 2723 employees and 355 employers shown that there are still some gaps in the field of awareness about this newly implemented allowance. Due to this we recommend continuing with raising awareness of employees about the possibility of receiving this allowance. From the point of view of employers we are satisfied with positive reception of the new law, allowance and its terms, that is confirmed by will of subjects with less than 50 employees to provide these benefits as well and to provide them to employees who do not fulfil the requirement of 2 year employment as well.

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GENDER BUDGETING IN LOCAL ADMINISTRATION: İSTANBUL BEYLİKDÜZÜ AND ESKİŞEHİR ODUNPAZARI CASES

Özgün AKDURAN EROL[1]

Abstract

Performance based budgeting system has been implemented since 2003 relying on the new Turkish Public Financial Management and Control Law, 5018. According to the new performance based budgeting system, every public institution, local administrative authorities as well, is expected to prepare a 5 year strategic plan which corresponds a policy paper included aims, targets and strategies that the institution committed to realize in 5 years period. Further, based on new budgeting system, strategic plan preparing process should be participatory. Therefore, various social groups should be involved in the planning process to ensure the final budget documents; accessible, accountable and transparent.

In addition, a new public budget classification system is implemented: Analytical Budget Classification System. This new budget classification method enables to show public budget in four different forms; that is institutional, functional, financial and economic classification. Nearly at the same time with this structural reform in budgeting law and methods, the interaction between gender responsive budgeting (GRB) initiatives and municipalities have started as well. Eskişehir Odunpazarı and Istanbul Beylikdüzü Municipalities are the most dedicated local bodies that have continued capacity building of their institution in GRB and tried to create a structural change in their budgeting and managerial practices.

Odunpazarı Municipality has organised GRB trainings for all its municipal departments in 2014 and following these trainings Department of Strategic Planning has started to work on developing a new budget reporting system. As a result of this effort, a new official document called ¨Odunpazarı Municipality Budget Implementation Equality Report¨ has been started to prepare and attached to the annual municipality Activity Report has been started to release, starting at 2017 budget year. As to Beylikdüzü Municipality; being one of the newest district municipalities in Istanbul, Beylikdüzü Municipality serves a 300.000 population, and has signed the European Charter for Equality of Women and Men in Local Life in 2016. Following this commitment, Municipality has started to integrate a gender responsive approach in its administrative practices and budgeting process. Furthermore, Beylikdüzü Municipality also has begun to prepare an Annual Equality Report. This study aims to discuss both municipalities' GRB practices in terms of the method they used and to shed light upon the obstacles being faced and also successes achieved.

Keywords: Gender Responsive Budgeting, Equality, Performance Based Budgeting

JEL Code : H61, J16

1. Introduction

Gender Responsive Budgeting (GRB) is not only a new approach to apply mainstream budgeting systems but also a powerful tool to ensure allocation of public financial resources is more

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efficient. Initial examples of GRB have been implemented in the late 1980s. Starting from those days till now, there have been many GRB implications implemented both in local and central administrative level and the lessons learned from that practices adds valuable contribution for each new following GRB initiative or practice. Having consider all these various level of GRB practices, we can say that public financial management (PFM) reforms have provided a very fruitful ground for kicking off to integrate GRB to new structured budgeting system. Turkish PFM reform taken place in 2003 has presented a very sufficient environment to give a start to GRB initiatives. The most known of these initiatives are the ones which conducted and supported by international or regional institutions such as UNWOMEN or European Union. For instance, ¨UN Joint Program for Promoting the Human Rights of Women¨ had been implemented in 11 provinces[1] in Turkey.[2] GRB trainings for capacity building of the municipal personnel and the awareness raising of the municipal assembly members were some of the components of the program. However, there are individual cases that opted to integrate GRB in their municipal managerial and budget processes such as district municipalities of Istanbul Beylikdüzü and Eskişehir Odunpazarı.

This paper aims to elaborate and discuss Beylikdüzü and Odunpazarı Municipalities' integration process of GRB approach to their administrative practice and budgeting processes. For this aim, municipalities' strategic plans and equality reports were analysed and two equality report prepared by the equality units were assessed in terms of their method and contents. As a final output, it is planned to make a discussion based on the strengths and weaknesses of both experience to encourage further GRB implications in Turkey.

2. Gender equality impact analysis and Equality Report in Beylikdüzü Municipality

Beylikdüzü Municipality Equality Unit decided to use capability approach to assess Municipality's services. Initially, a list of capability functions has been prepared based on the services provided by the municipal departments. These lists of functions has been drawn on capabilities approach (Nussbaum 2003; Robeyns 2005; Sen 1985, 1999) and improved by the equality unit. Usage of capability approach in auditing gender budgeting practices is not a new subject in public service provision and often called Well-Being Gender Budgeting. It has been applied in Italy, Spain (Addabbo et all., 2008a; Addabbo et all., 2008b; Addabbo, 2010; Addabbo, 2011; Addabbo, 2016; Addabbo et all. 2015), and Turkey (Günlük-Senesen et all. 2015; Yücel and Günlük-Şenesen 2018) to audit local public services with a gender and well-being sensitive approach. Evaluation of policy design and implementation and analyzing the outcomes is the focus of Well-Being Gender Budgeting Yücel and Günlük-Şensesen 2018: 277).

In Beylikdüzü case, initially, 2016 Performance Programme and the 2016 Activity Report of the municipality have been used in the equality monitoring and assessment of the year of 2016. It was decided to monitor the implementation of the objectives and activities identified in the Performance Programme through assessing the Activity Report. In that vein, initially, objectives

[1] Aydın, Kahramanmaraş, Çanakkale, Kastamonu, Edirne, Kayseri, Erzincan, Kocaeli, Eskişehir, Ordu, Gaziantep
[2] For more information : https://info.undp.org/docs/pdc/Documents/TUR/UNJP%20Progress%20report%20I%20Final.pdf

and activities that was mentioned in the Performance Programme were thematically classified on the basis of the 16 local service functions. Following to that, it was demonstrated on what extent the budget, performance indicators and measurements were materialised comparing with the identified budget performance indicator and measurement in the Performance Programme. The actual values were presented –if the form of activities could be evaluated in that sense- on the basis of gender, age and district data. In the report, besides the data obtained from the Municipality's data module CityPlus, the data, which prepared by the directorates, has been used as well. Additional to these databases, the data which was asked from the directors on to the activities that possess an impact on the equality principle in service providing and the activities, which were defined in the 2016 Beylikdüzü Municipality Performance Programme have been assessed as well.

With this report, it was aimed to ensure the participation of the citizens involving residents' direct opinions, suggestions and level of satisfactions. In that sense, it is aimed to perform questionnaires and focus group meetings with the residents from different social groups (age, gender, district) and include the results to the report.

Even though the 2016 pilot report did not realise the mentioned focus group meetings yet, it had made possible the resident participation through analysing the data. To give an example, as it can be seen on the Table 1, the Directorate of Culture 2016 performance report demonstrates that the directorate used more of the allocated budget for the cultural trip activities, and also the number of residents who were expected to participate those trips has been increased.

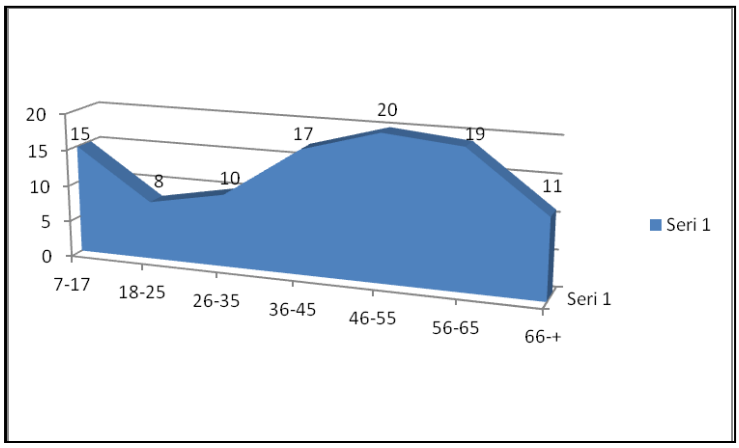
Table 1. Culture and Social Works: Culture trips data, 2016

Period	Code	Activity	Budget	Deparment	Performance Indicator	Unit of measurement	Measurement
Target - 2016 Performance Programe	F.1.3.1	Culture Trip	1,143,400.00 TL	Culture and Social Works	Number of participant	person	13.000
Actual -2016 Activity Report	F.1.3.1	Culture Trip	1.337.570,64 TL	Culture and Social Works	Number of participant	person	13.635

When trips were analysed on the basis of gender it is possible to observe the majority of the residents who participate to those trips are women with 67 percent. In that sense two questions should be asked. Firstly, why the male residents' participation is so low to these trips. Secondly, who are these female participants? What are the districts and the age groups of women who are participating more to these trips?

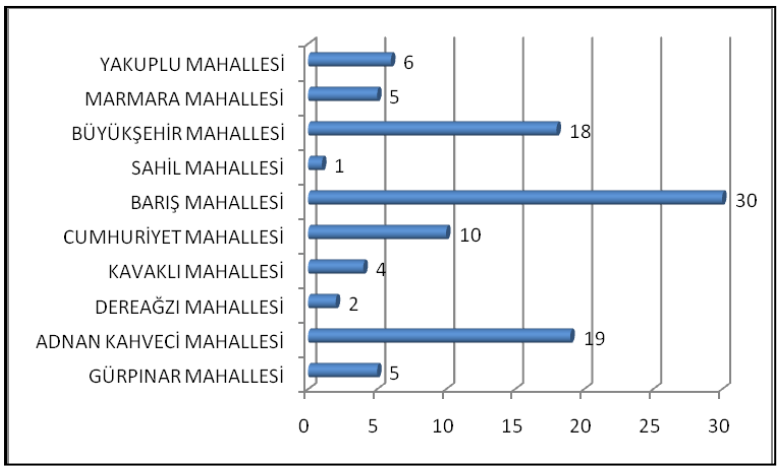
The answer of the first question is, since the majority of the male residents are working during the daytime, they cannot participate to the trips on the weekdays. In order to analyse whether there is a differentiation among women participants the age and district based data needs to be evaluated. According to this data, more than half of the participants are over age 35 while the participation of the age groups of 18-25 and 26-35 is low. (Figure 1)

Figure 1. Culture trip, woman participant, by age



The Social Equality Unit inquired the reason of this differentiation in the women participation by appealing to the directorate personnel, to the woman NGOs' representatives within the City Council and the female residents in the Beylikdüzü Municipality. According to the answers received from these inquires, the participation of the women in these age groups was low since the municipality does not accept the children between 0-6 and these residents do not have any place to leave their children.

Figure 2. Culture Trip, woman participant, by district



Additionally, when the dissemination of the female participants to these trips were evaluated on the basis of districts it was observed that majority of the female participants were composed of the residents from high-income districts which are closer to the city centre with a relatively higher social statute from the districts such as Barış, Adnan Kahveci, Büyükşehir and Cumhuriyet. It was also observed that the participation of the female residents from the districts such as Kavaklı, Dereağzı, Gürpınar and Salih where the low-income residents who are more likely to not being

able to travel out of Beylikdüzü for cultural purposes if the Municipality does not provide such services was quite low. (Figure 2) When the causes of this low participation from the low-income districts were analysed it was observed that there were not enough informative efforts had been realised in these districts and at the same time the accessibility of the female residents of these districts was limited to the gathering and departure points of the municipality coaches for the trips. As O'Hagan and Klatzer pointed out, ¨without analysis and understanding of the gendered effects that influence and shape women and men's experience of public services and economic expectations, policies will continue to reinforce gendered norms that produced the gendered effects of inequality¨ (O'hagan and Klatzer; 2018: 5). As a result of that, thanks to this data obtained from the Directorate of the Cultural and Social Activities Equality Report, in the following year, the Directorate took measures to allocate coaches for only participants with children and to provide services from the distant districts to the trip departure points for cultural trip services will be organised in the following year, to increase the participation of the young women with children and the female residents from distant districts.

3. Odunpazarı Municipality Budget Implementation Equality Report

Odunpazarı Municipality has organised GRB trainings for all its municipal departments in 2014 and following these trainings Department of Strategic Planning has started to work on developing a new budget reporting system. As a result of this effort, a new official document called ¨Odunpazarı Municipality Budget Implementation Equality Report¨ was prepared and attached to the annual municipality Activity Report starting at 2017 budget year.

Works that have been implemented in Odunpazarı Municipality related with GRB can be summarised in three areas:

- Integrating gender equality approach to the strategic planning
- Raising awareness at the institutional level
- Systematic data gathering (gender disaggregated)

In 2015-2019 Strategic Plan of the municipality a special target (number 1.5) was designated for the gender equality: ¨ considering gender equality in the all services of the municipality¨. And the strategies to realize this target are identified as below;

- forming a methodology for GRB works,
- creating an awareness on GRB in the municipality.

As an important component of the monitoring and assessment of the success of these strategies, an indicator was determined as well. According to that, ¨the number of the study conducted to create a GRB approach in the institution¨ will be monitored and assessed during that 5 years plan period.

Moreover an Equality Unit is established under the Department of Strategic Planning and an integral directive created for clarifying the duties and responsibilities of the unit. Directive of the Equality Unit also includes operations and duties that are expected to follow by the disbursement units of all municipal departments. There are 5 documents that are expected to fill in by each

disbursement unit. The questions stated in the documents examine the specific disbursements aimed gender equality, asks target groups and expected number of the women and men beneficiary of the service or the number of women and men who lives in the neighbourhood that a service tended to. Equality Unit has prepared its first Budget Implementation Equality Report as a component of the formal activity report of the municipality in 2017 and it is seen that only 83.690.198,05 TL out of 198.418.698,33 TL budget expenditures can be assessed based on the equality impact. This amount corresponds to 42% of the total budget. In 2018 Budget Implementation Equality Report, this proportion decreased to 30% of the total budget.[1]

The overall view of the report can be seen at the below (Table 1). According to that view, except personnel expenditures, it seems that women beneficiaries utilize more from municipal budget than male residents.

Table 3. 2017 Budget Implementation Results of Odunpazarı Municipality

Economic Classification (I.level)	**Beneficiaries, %**		**Total expenditures in the context of GRB (TL)**	**Total Budget (TL)**
	Woman	**Man**		
Personnel Expenditures	21%	70%	29.784.834,14	29.784.834,14
State Premium Payments to Social Security Institutions	20%	80%	4.608.182,70	4.608.182,70
Purchase of Goods and Services	55%	45%	44.923.146,94	104.168.309,55
Interest Payments			0,00	5.966.627,57
Current Transfers	67%	33%	1.337.869,05	7.824.988,75
Capital Expenditures	53%	47%	3.036.165,22	46.042.155,62
Capital Transfers			0,00	0,00
Lending			0,00	23.600,00
Contingency Expenditures			0,00	0,00

[1] 85.562.926,47 TL out of 280.000.000,00 TL is analyzed based on the gender awareness.

TOTAL	**83.690.198,05**	**198.418.698,33**

However, it is obvious that, making assumptions about the residents' access to the services based on the sex disaggregated population data in a neighbourhood may not be reliable and need to be crosschecked using additional data such as beneficiary-user surveys or focus group meetings, citizen assembly and public trials.

4. Conclusion

The gender responsive budgeting experience Beylikdüzü Municipality demonstrated that through performing the equality impact analysis of the services provided by the municipality and analysing how those services were given to the residents on the basis of data revealed several gains;

- It was ensured to create a participatory service design and delivery, via creating a framework for including residents' opinions on the forms of accessing and using those services,
- On the basis of the data from the Equality Report, the redesigning of the service and more effective resource allocation became possible,
- The standards of the access and use of services by the different residents from different gender, age and socio-economic statue groups were ensured to be more equal.

Beylikdüzü Municipality equality unit has made its assessment on the basis of an age, sex and district level classification for revealing the access level of different groups to the services. The amount of the money spent on each service is also included in the analysis but the core element of the analysis is the level of access to the services. On the other hand, Odunpazarı Municipality equality unit decided to place budget at the centre of their assessment. And matching the number of beneficiaries and/or the population in a certain district with the expenditure budget I. level economic classification data has been realized. The weakness in both cases is the size of the budget that enables them to analyse on the basis of gender, age, district or population level segregated data.

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Appendix 1. Matrix of Directorates and theirs functions to increase capabilities

Functions / **Directorates**	Providing adequate and secure living spaces	Adequate mobility and environment planning	Leisure and sport activities	Sufficient care services	Social - political participation	Paid work opportunities and acceptable working conditions	Access to the financial and material aid	Being healthy	Continuous education and Learning	Participation to the social life, social inclusion and sociocultural development	Creation of equality sensitive institutional culture	Support of commercial activities and opportunities	Adequate housing and dwellings	Special situations support	Being able to live a life without violence	Receiving respect and dignity
Environmental Protection	X				X				X							
Technical works	X	X	X										X			
Parks and Gardens	X	X	X							X						
City Planning		X											X			
Construction and Urbanization													X			
Support Services		X												X		
City Police	X											X				
License and Audit						X										
Sport			X													
Health		X		X				X	X		X					X
Culture and Social Works									X	X						X
Woman and Family				X	X		X	X	X	X	X		X	X	X	X
Media and Public Relations					X					X						X
Human Resources						X			X		X					X
IT						X			X							
BEYAŞ – Municipal Facilities			X							X						
General Secretariat					X					X						
Veterinary Works									X							
City Council					X					X						X

AN EVALUATION ON THE IDEA OF GROWING OR SHRINKING AS AN ALTERNATIVE APPROACH TO THE SOLUTION OF ENVIRONMENTAL PROBLEMS

Arman Zafer YALÇIN[1]

Abstract

The idea of not growing in economic terms, widely known as degrowth, is an ecological solution method developed as an alternative to the understanding of classical economi growth. It's a reaction to the understanding of unlimited growth of classical economic growth. Fundementally, it can be regarded as a sub product of green idea philosophy which developed in 1970's as a counter action against capitalist economic system. It claims that unlimited growth of economic activities disturb the ecological balance and depletes the resources. Based on these allegations, it advocates that the economy call growth process shall firstly be stopped and degrowth shall be gradually. Though some tangible proposals have been made in order to maket he above mentioned arguments real, the question as to whether degrowth is possible within capitalist economic system has yet to be answered clearly. The relation between the idea of degrowth and development is also a determinant. When one looks from only prosperity of more than 1 billion people starving in the rest of the world. Therefore, even thouh the idea of degrowth fundementally stands on a correct ground, it can not produce a tangible, comprehencive and sustainable solution against today's world's bitter realities. Accordingly, the idea of degrowth seems not to go beyond argumets of only ecological activist and some sensitive scholars living in developed western countries.

Keywords: Economic Growth, Degrowth, Environmental Problems, Capitalism

JEL Code: O44, P10

1. Introduction

The mainstream economic theory, which has emerged with the Industrial Revolution and continues its influence today, recognizes that the basis of human welfare is based on material prosperity. Material welfare depends on economic growth and development. Therefore, it is accepted that higher economic growth means higher development and prosperity. It is assumed that the average income per capita will increase as the country's economy grows, and people will increase their personal well-being by consuming more goods and services. In the 1990s and early 2000s, problems caused by environmental pollution and income distribution inequality began to affect almost all people living on the world without exception. Today, humanity and civilization face climate change and global warming problems as a result of the cumulative effect of

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environmental problems. Due to global warming, it is estimated that the ecological balance will completely disappear at the end of the 21st century and that the existence of the humanbeing will end. The global system and humanity have to tackle economic and social inequalities as well as global warming. In summary, in the first quarter of the 21st century, human beings are facing an ecological and economic crisis (Yalçın, 2017: 1).

It is understood that classical economic growth approach is the main source of the problem. Today, the debate on whether there is a limit to economic growth is very important in terms of diagnosing the problem. The question of economic growth without a boundary on a finite planet is the main argument of the debate on the degrowth or shrinkage of economically. Excessive production and consumption activities caused by the classical economic growth approach lead to excessive carbon emissions, while excessive carbon emissions accelerate the global warming and climate change process. Therefore, the number of scientists and politicians who say that it is impossible to prevent global warming and climate change without changing the economic policies based on classical economic growth and development is increasing every day. Today, as an alternative to the classical economic growth approach, there are solutions based on solutions such as the green economy and green growth, as well as different economic alternatives that push the boundaries of the capitalist system and even seek solutions out of the capitalist system.

In this study, the concepts of degrowth or economic downsizing which push the boundaries of the capitalist system to the destructive environmental problems caused by classical growth, and which often define itself outside the capitalist system will be discussed. This paper primarily focus on the historical and theoretical foundations of degrowth or shrinkage, In the second chapter, it will be discussed whether the degrowth and capitalism will be compatible. In the third and last chapter, the relationship of degrowth with the current development paradigm will be examined.

2. Economic Degrowth

Economic degrowth is the choice of alternative economic policies against environmental threats that threaten the future of human beings such as climate change and global warming. In recent years, many researchers who investigating the relationship between environment and economy have entered the search for a new economic paradigm that will not halt the progress of civilization without retreating the level of civilization except for classical economic growth. The concept of downsizing in the literature is used to include economic degrowth. In this respect, the concept of downsizing in the rest of the work will also be used to include economic degrowth.

The idea of economic degrowth, unlike the idea of sustainable development, rejects the idea that environmental problems can be solved by green and environmental investments. The advocates of degrowth argue that the problem of economic growth is the obsession with economic growth and economic-oriented consumption-based consumption-oriented understanding, which can only be changed by the destruction of this structure of thought. In addition, degrowth advocates argue that, as can be seen at first glance, a more selective downsizing scenario in geographic and sectoral terms should be implemented, not a general scale down in the world economy (Koyuncu ve Özer, 2017: 176).

The Research and Degrowth Collective, which makes corporate representation of the idea of economic degrowth in the world, defines economic degrowth as reducing the production and consumption in a way that improves human well-being and improves ecological conditions and existing inequalities (http://degrowth.org/defination E.T. 25.02.2019).

According to Kallis et al. (2015), economic growth cannot be sustained ecologically, economically and socially. These three factors are the three main factors that play a role in the rise of the idea of economic degrowth.

One of the first studies on degrowth was a study by Georgescu and Roegen in 1987. Georgescu and Roegen state that the world is a limited planet and that it is not possible to grow on this limited planet without any boundaries. According to Georgescu and Roegen, the use of unlimited resources is not possible and therefore the traditional economy must be replaced by the bio-economy. In other words, a strong link must be established between the biosphere and the economy (Grinevald, 1993: 6; akt. Turgut, 2014: 147).

In contrast to supporters of sustainable development and green growth, degrowth advocates argues that scientific and technological developments cannot solve environmental problems and economic inequalities, but that degrowth does not mean reverting back to primitive life prior to modern civilization. Instead, a new social order should be established by maintaining the level of knowledge and technology achieved by modern civilization (Illich, 2011: 6).

In order to economic growth to continue forever, it is necessary to have unlimited space, unlimited energy and unlimited resources. According to Schumacher, in fact, everyone believes in growth and it is right. Because growth is a reality that exists at the core of life. On the other hand, it is important to determine the qualitative limit of the concept of growth (Schumacher, 2010: 123).

According to Demaria et al. (2013), there are six main sources that feed the idea of economic degrowth;

1. **Environmentalist Approaches** that attach an internal value to ecosystems and emphasize the negative effects of economic growth on nature.
2. **Post Structuralist Studies** criticizing both development and mainstream utilitarian-based economics approach.
3. **The Well Being Approach**, which advocates voluntary simplicity for people, on the contrary it does not bring much happiness to much produce and much consume.
4. **Ecological Economics Approach** summarized by Georgescu and Roegen with the concept of bioeconomics.
5. **The More Deeper Democratic Structures or Direct Democracy Approaches** advocated by economists such as Illich, Gorz and Castoriadis.
6. Thoughts about providing justice in income, wealth and resource distribution both inside and outside the country.

The advocates of classical economic growth argue that economic growth is necessary to achieve human well-being on earth, while the economic degrowht advocates argue that human welfare can be increased even if the economy shrinks and economic growth does not always provide prosperity. Cuba is the most obvious example of how human well-being increases without

growth. Cuba is in the high human development ranking, on the other hand it has the lowest environmental footprint (Turgut, 2014: 150). Nowadays, the countries with the highest environmental footprint value are the countries with the highest human development level and the highest per capita income. In contrast, African countries with the lowest environmental footprint have the lowest levels of human development. This shows that the economic growth paradigm that as a development prescription presented to the underdeveloped countries is diametrically opposed to the approach of economic degrowth. This contradiction brings to mind the idea of degrowth and whether the capitalist economic system overlaps with each other.

3. Does The Idea Of Degrowth Overlap With Capitalism?

In the literature on the idea of degrowth, the most serious criticism against degrowth is its relationship with the capitalist economic system. Whether it is possible to economically degrowth in the capitalist system, or is the economic degrowth inherently anti-capitalist?

D'Alisa et al. (2015) emphasizes that non-capitalist rules, institutions and policies need to be developed in order to implement the idea of downsizing, which would directly diminish the importance of the capitalist system. According to Koyuncu and Özer (2017: 180), it can easily be seen that the idea of economic degrowth is incompatible with capitalism. On the basis of capitalism, the search for new markets, new products, and modes of production is continuous, in order to protect or further increase the profits of capital owners under competitive pressure. While these searches create an increasing degree of labor exploitation and environmental pollution, they are only possible within a capitalist economic system.

Serge Latouche, a prominent proponent of the downsizing movement in France, opposes the total rejection of capitalist institutions, though he says a contraction-based society cannot exist in the capitalist system. According to Latouche, the complete elimination of capitalist institutions, the prohibition of wage labor, money and the private ownership of the means of production would lead society to chaos. According to him, there should be another alternative where private property, money and markets are not abandoned but growth will be abandoned (Koyuncu ve Özer, 2017: 180- 181).

In 2009, Tim Jackson, a report he wrote for the British Parliament, called for an alternative system based on economic growth. According to Jakcson (2009), the notion that growth cannot be questioned in an economic system dominated by global companies, so that the global companies' sovereignty in the economic structure is ended, but the idea of economic degrowth can be discussed.

In spite of the increasing number of thinkers who research and write on the subject of degrowth today, there is no concrete strategy for degrowth. The main reason for this deficiency is the contradictory relationship between degrowth and capitalism. According to Latouche, who is trying to put forward a number of concrete proposals, although not exhaustive, the proposals for internalizing the costs of pollution-creating sectors such as transportation by corporations and the high level of taxation of advertising expenditures are, in fact, it is based on that the idea of internalizing the negative externalities that Pigou expressed years ago through taxes. With this approach, Latouche did not break away from the capitalist thought form.

Fotopoulos (2007) states that the idea of economic degrowth is focused not only on the ecological aspect of the multi-faceted crisis in which the capitalist system is involved, and therefore cannot be a universal approach. Fotopoulos states that environmental problems are only one of the common problems facing human beings, that the capitalist economic system leads to other very important social problems that create inequality, whereas the idea of degrowth misses these social problems and does not emphasize the class.

The idea of degrowth is criticized by Marxist economists, in contrast to liberal economists. On the basis of this, as Fotopoulos pointed out, the essence of thought is that exploitation and inter-class relations are ignored. For Marxist economists the idea of degrowth is an ecologically valuable idea. For them, the idea of degrowth can have a value as a critique of capital accumulation and as part of a more egalitarian social order.

4. The Relationship of Sustainable Development and Degrowth

The thinkers, who advocate economic degrowth, establish the relationship between economic downsizing and development through the concept of sustainable development. According to Turgut (2014), the idea of sustainable development continues to follow a neo-liberal line in the 1990s, although economic growth emerged from destructive environmental problems and inequalities.

Sustainable development, which has a history of more than 30 years, has been highly influenced by the impact of globalization at a time when the environment has been most destroyed and economic and social inequalities are growing. Sustainable development has not been able to provide a comprehensive and concrete solution, which has been widely accepted in intellectual circles, but which will produce permanent solutions to environmental, social and economic problems. In recent years, concepts such as green economy and green growth, which are shown as the road map of sustainable development, suggest that economic growth and development are possible within the free market system. In particular, the concept of green growth is more concrete than sustainable development. Because it focuses not only on ecological destruction caused by classical economic growth, but also on economic and social inequalities.

The main factor that distinguishes green growth from the idea of economic downsizing; Green growth is to recognize that economic growth is an inevitable reality for the future of societies and the welfare of human beings. According to the green growth idea, in order to sustain the development process economic activities based on fossil energy should be abandoned and a new economic order based on zero carbon emission should be established instead. The idea of economic degrowth suggests that human beings' material welfare expectation is constantly increasing, and that when we add an increasing population, it is not possible to grow unlimitedly. While the concept of green growth claims that the economic order based on zero carbon emissions can be possible within the capitalist system, many of the economic degrowth advocates claim that such a solution cannot be possible within the capitalist system.

5. Conclusion

Thanks to the economic growth model of capitalism, the production of goods and services in the world in the last 250- 300 years has developed at a dizzying pace. Increasing production and consumption activities increased the material well-being of humanity to very high levels. However, this enormous amount of economic growth has created serious economic and social inequalities and problems, including climate change and global warming. The idea of degrowth is the result of the devastating environmental problems posed by the classical economic growth paradigm and the social and economic inequalities. Although the concept of economic degrowth opposes the concept of classical economic growth, it could not offer an economic system based on a concrete and comprehensive solution to the solution of the problems. Because, the idea of many solutions mentioned in the idea of degrowth contradicts the principles of capitalist free market order. Therefore, we think that an alternative economic approach that offers a solution to environmental problems should offer a consistent solution. The question of whether the idea of economic downsizing is an alternative in the capitalist system has not yet been answered. Today, more than 1 billion people are starving and have no access to electricity and healthy water. It is possible to ignore the expectation of the prosperity of billions of people living in extremely bad conditions who are starving, when we approach the problem only from the level of consumption of developed countries and the destructive environmental problems caused by this level of consumption.

While global politics and the current economic order are aware of the environmental and social destruction of economic growth, they have not yet been able to develop a new economic alternative that this insane understanding can put in place. Alternatives such as green growth developed within the capitalist system have not yet touched the daily life of billions of people. The idea of downsizing has not yet been able to take political action at the government level, which is of interest to scientists and activists interested in the issue at the conceptual level. The reason for this is that, as mentioned above, it does not have a coherent social and political perspective other than an ecological perspective.

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TAX INCENTIVES PROVIDED FOR GREEN BONDS IN FINANCING OF ENERGY EFFICIENCY AND ITS IMPORTANCE FOR TURKEY

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Abstract

Energy efficiency is of vital importance for Turkey as one of the elements of sustainable development. Turkey is faced with difficulties in providing sustainable development due to its dependence on imported energy. In addition, the impacts of climate change have a negative effect on Turkey's environment and economy. Turkey is therefore involved in international efforts to combat global climate change and reduce greenhouse gas emissions. As for many countries, financing of energy efficiency is also a significant issue for Turkey. As an alternative to financing energy efficiency, green bonds are developing rapidly all over the world. Green bonds are financial instruments that provide opportunities for investors to participate in the financing of "green" projects that help reduce the negative impacts of climate change and adapt to the impacts of climate change, reduce CO2 emissions, prevent environmental pollution, and improve social welfare.These structures have important effects on the realization of sustainable development. Turkey's first and only green bond was issued by the Industrial Development Bank of Turkey in 2016 and attracted investors' attention.Countries such as the US, China and Chile apply tax incentives for green bonds to attract investors. However, level of awareness of green bonds in Turkey is low and there are no tax incentives yet. Necessary measures should be taken to facilitate financing of energy efficiency in Turkey and tax incentives should be implemented for green bonds. In this paper, the development and types of green bonds in the world and Turkey, tax incentives provided for green bonds in financing of energy efficiency in the world and Turkey, and recommendations for Turkey were discussed.

Keywords: Green bonds, green bond principles, tax incentives, energy efficiency, sustainable energy, sustainable development.

JEL Code: H23, K34, P18, P48, Q01, Q28, Q42, Q48, Q54, Q56

1. Introduction

Natural disasters stemmed from climate change in 2017 are estimated to cause US$320 billion losses (Bahuet, October 8, 2018). Turkey is one of the most affected countries by global climate change, especially by desertification and deterioration of water resources. Therefore, efforts are made at national and international level in order to ensure a sustainable environment and development.Combating climate change is not solely an environmental problem. Within the scope of the combat, the global transition to the low carbon economy will determine the

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countries' sustainable development, energy, health, agriculture and food security, water resources utilization policies and bring about a social and economic transformation.

Sustainable development can only be successful if environmental, economic and social policies are implemented in a coherent and balanced manner.Energy efficiency is one of the elements of sustainable development. Environmental, economic, political and social concerns increase the importance of energy efficiency policies.

Recently, green bonds have attracted the attention of investors as a sustainable financing instrument in the financing of energy efficiency investments.Stock markets such as Italy, Oslo, London, Mexico, Luxembourg, Shanghai and Shenzhen have established a certain green bond market segment to strengthen the green bond market (Reboredo, 2018: 39).

Incomes obtained from green bonds are provided with tax incentives in the US, China, India, Brazil and Chile. However, there are no tax incentives in Turkey.In this paper, tax incentives which can be provided to green bonds in the financing of energy efficiency in Turkey and its importance will be discussed.

2. Methods of Financing Energy Efficiency in Turkey

Financing of energy efficiency in Turkey is of considerable importance in terms of its benefits and results. In Turkey, which is dependent on foreign energy and whose economy is adversely affected by global climate change, financing energy efficiency projects provides significant and environmental benefits. Energy efficiency projects contribute to the increase of efficiency in the use of energy resources and the reduction of greenhouse gas emissions. They support the reduction of external dependency and current account deficit by ensuring supply security in energy.

Energy efficiency investments in Turkey is not at the desired level due to difficulties arising from access to finance and in order for Turkey to reach its 2023 energy intensity goal, it is necessary to remove the obstacles to the financing of energy efficiency (Ata, 2013: 99).

Basic supports in financing of energy efficiency in Turkey can be listed as such (http://www.yegm.gov.tr/verimlilik/destekler.aspx.):

- Support for Efficiency Enhancing Projects in industrial enterprises.
- Benefiting from 5th Region incentives for Energy Efficiency Investment Projects.
- Support for reducing energy intensity by making Voluntary Agreements for industrial enterprises.
- Support provided for energy efficiency projects by the industrial enterprises of Technology Development Foundation of Turkey.
- Support provided by KOSGEB to small and medium enterprises for surveys and energy efficiency consultancy services taken from energy efficiency consultancy companies.
- Loans provided by international development agencies and financial institutions and by national banks and financial institutions under favorable conditions.

In addition, green bonds began to be used more and more in the financing of energy efficiency in Turkey and worldwide.

3. Green Bonds in Financing Energy Efficiency

3.1. The Concept of Green Bond and its Development

A green bond is a debt security that is issued to raise capital specifically to support climate related or environmental projects (IBRD, 2015: 23; Berensmann vd., 2016: 2; Kandır &Yakar, 2017a: 161;Tang & Zhang, 2018: 4). This financial instrument is attractive as an alternative investment tool for investors focusing on integrating Environmental-Social-Governance issues into investment processes in international financial markets (ESCARUS, 2018: 42).Green bonds are financial instruments that provide opportunities for investors to participate in the financing of "green" projects that help reduce the negative impacts of climate change and adapt to the impacts of climate change(Reichelt, 2010: 2; Tang & Zhang, 2018: 4; Kandır&Yakar, 2017a: 161).

Green Bonds can be defined as "any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the GBP" (International Capital Market Association, 2018).

A key feature of these bonds valued by many investors is the due diligence process that the issuer of green bonds conducts to identify and monitor 'green' projects (Reichelt, 2010: 2).The difference of green bonds from other bonds is that the funds obtained from the bond issuance must be used in green projects (Kandır &Yakar, 2017 b: 92).

As can be seen in Table 1, renewable energy and energy efficiency investments have the largest share. In 2017, the share of renewable energy decreased by 3.7%, while the share of energy efficiency increased by 2.4% compared to 2016.

Table 1. Comparison of use of proceeds for 2016 and 2017

	2016	**2017**
Renewable Energy	29.1%	25.4%
Energy Efficiency	19.4%	21.8%
Clean Transportation	14.02%	14.06%
Sustainable Water Management	11.2%	9.95%
Pollution Prevention and Control	11.3%	9.95%
Terrestrial and Aquatic Biodiversity Conservation	2.1%	7.8%
Eco-Efficient Products, Production Technologies and Processes	1.2%	5.6%

Sustainable Management of Living Natural Resources	2.1%	5.24%
Climate Change Adaptation	5.6%	0.2%

Reference: Green Bonds: Review of 2017, s. 11. https://www.environmental finance. com/ assets/files/Green%20Bonds%20Review%20of%202017.pdf (16.02.2019).

Private sector, international financial institutions, supranational institutions as well as national level states, regional governments and municipalities can also issue green bonds (Flaherty vd., 2017: 471-472).As seen from Table 2, while financial institutions had the largest share with 36.45% of green bond issuers in 2016, its share in 2017 decreased to 16.59%. The most drastic increase in green bond issuance in 2017 occurred in agency and sovereign bonds.

Table 2. Comparison of issuer types (2016-2017)

	2016	**2017**
Agency	10.%	31.27%
Corporate	31.5%	29.73%
Financial Institution	36.45%	16.59%
Municipal	10.5%	8.9%
Sovereign	0.85%	7.07%
Supranational	10.5%	6.41%

Reference: Green Bonds: Review of 2017, s. 11. https://www.environmental finance.com/assets/files/Green%20Bonds%20Review%20of%202017.pdf (16.02.2019).

The global green bond market started in 2007 with an issue from the European Investment Bank. In 2008, the World Bank issued the first fixed-rate bond carrying a green label (Chiang, 2017: 8).

Poland was the first national government to issue a green bond valued US$800 million in December 2016. It was followed in January 2017 by France. Argentina, Chile, Fiji, Lithuania, Malaysia, Nigeria, Singapore, Switzerland and the UAE joined the fray in 2017 (Green Bonds: Review of 2017, s. 3). In March 2018, the Government of Indonesia issued the first Green Islamic Bond (green sovereign sukuk).The five-year issuance reached US$1.25 billion (Bahuet, October 8, 2018).

The US, China and France are the leading countries in the green bond market. China's first green bonds were issued in 2015 (Boulle vd, 2017: 4). Whereas in the US and China, issuers were mainly agencies and financial institutions in 2017, French issuers were more diverse. The French sovereign bond accounts for 53% of the value of issuance from the country, but corporates account for 32%, agencies 10%, and financial institutions and municipals the remaining 5% (Green Bonds: Review of 2017: 3).

The first green municipality bond was issued in June 2013 in Massachusetts. In October 2013, Gothenburg issued its green city bond.There are different US states, Ontario state (Canada), Johannesburg city (South Africa) and La Rioja state (Argentina) among the large scale green bond issuers. The green bond issuance of regional governments is also ongoing (ESCARUS, 2018: 39).

In May, 18th 2016, Industrial Development Bank of Turkey was the first to issue 5-year term $ 300 million green/sustainable bond. 44% of the demand for bond issue came from England, 39% from Continental Europe, 9% from US off-shore funds, 8% from Asia and the Middle East (TSKB, 2017: 13).

3.2. The Green Bond Principles

In 2014, the Green Bond Principles, which are in the form of advice and voluntary guidance, have been formed (Ceres, 2014: 1). Green Bond Principles are designed for the development of the green bond market. The issuers are guided and supported at the key points when issuing green bonds. It proposes the transparency, sharing and integrity of the information to be reported to the stakeholders by the issuers (International Capital Market Association, 2018). Green Bond helps investors by ensuring the availability of information necessary to assess the environmental impact of their investments and helps the insurance companies by moving the market towards standard explanations to facilitate transactions (Ceres, 2014: 1).

The GBP have four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

3.3. Types of Green Bonds

There are four types of Green Bonds (International Capital Market Association, 2018).

- **Standard Green Use of Proceeds Bond:** It is the obligation of a standard recourse debt to the issuer aligned with the green bond principles.

- **Green Revenue Bond:** It is the obligation of a standard non-recourse debt to the issuer aligned with the green bond principles in which the credit risk in the bond depends on pledged cash flows of inflows, wages, taxes, etc. and where their income is used for the relevant or unrelated green project(s).

- **Green Project Bond:** It is the project bond that complies with the principles of green bonds for one or more green projects where the investor will be directly exposed to the risk of project/projects with or without potential recourse to the issuer.

- **Green Securitised Bond:** It is the bond secured by one or more specific green projects, such as covered bonds, ABS, MBS, and other structures and aligned with the GBP.

Green bonds are also classified as labeled and unlabeled green bonds. While labeled green bonds can be marketed as green bonds, unlabled green bonds cannot be marketed as green bonds in the capital market, although they are used to finance environmentally friendly projects as labeled bonds (Kandır&Yakar, 2017b: 94).

3.4. Tax Incentives Provided For Green Bonds in the World and Turkey

There are various tax incentives provided to investors or issuers for green bonds (https://www.climatebonds.net/policy/policy-areas/tax-incentives):

- ***Tax credit bonds****: Bond investors receive tax credits instead of interest payments. An example of this in the clean energy field is the US Federal Government's Clean Renewable Energy Bonds (CREBs) and Qualified Energy Conservation Bonds (QECBs) program. In the program, the issuance of tax credit bonds of municipalities is allowed; A tax credit of up to 70% of the coupon is subsidized by the municipality or the federal government.*
- ***Direct subsidy bonds:*** *Bond issuers receive cash back from the state to subsidize net interest payments. In addition, this structure is used under the US federal government Clean Renewable Energy Bonds (CREBs) and Qualified Energy Conservation Bonds (QECBs) program.*
- ***Tax-exempt bonds:*** *Bond investors do not have to pay income tax on interest from their green bonds (which may lower the issuer's interest rate).*

All green bonds issued in China, Chile, India, USA and Brazil are exempt from tax, whereas in Malaysia, tax deductions are applied. (International Institute for Sustainable Development, 2016). In Turkey, however, there is no special provision and tax incentive in our tax legislation for the revenues derived from green bonds (Kandır&Yakar, 2017 a:103). Revenues obtained from government bonds and special bonds are subject to withholding according to the provisional article 67 of Income Tax Law. (Gelir İdaresi Başkanlığı, 2019: 8-10). Revenues obtained from green bonds are also subject to tax.

4. Conclusion

In many countries around the world, interest in green bonds is increasing and this market is growing in order to combat climate change, to get rid of the dependence on fossil fuels in energy and to ensure sustainable development. In 2016, Industrial Development Bank of Turkey (TSKB) became the first establishment in Turkey to issue green bonds. There are countries such as Poland and France which issue sovereign bonds, however, Turkey is not one of them. In terms of our country, which is dependent on foreign resources in energy and which has current account deficit, it is important to strengthen and encourage green bond market as an option for financing energy efficiency. Issuing green bonds in Turkey does not provide any tax benefits for investors. For the reasons mentioned above, tax incentives should be used as tools to be able to benefit from green bonds in financing energy efficiency and to improve green bond market (See. Kandır&Yakar, 2017 a: 104).

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AN EMPIRICAL ANALYSIS ON THE RELATIONSHIP BETWEEN RENEWABLE ENERGY CONSUMPTION, HEALTH CARE EXPENDITURES AND CARBON DIOXIDE EMISSION IN THE EUROPEAN UNION COUNTRIES AND TURKEY

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Abstract

In the existing literature, although there are many studies which empirically investigate the relationship among energy consumption, economic growth and carbon dioxide emission the number of studies which analyse the causality between health care expenditures and carbon dioxide emission is very low. However, as health care expenditures can affect carbon dioxide emission, the changes in carbon dioxide emission can lead to the significant changes in health care expenditures. The aim of this study is to empirically investigate the causality relationship among renewable energy consumption, health care expenditures and carbon dioxide emission in the European Union countries and Turkey. In the empirical analysis, panel Granger causality test which is developed by Dumitrescu and Hurlin (2012) is calculated by using a dataset covering the period between 2000 and 2014 for 27 European Union countries and Turkey. According to the results of the empirical analysis, it is found that there is not a causality relationship between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy. However, the results show that there is a unidirectional causality between renewable energy and carbon dioxide emission and the direction of this causality is from carbon dioxide emission to renewable energy. The existence of this relationship between carbon dioxide emission and renewable energy indicates that the level of carbon dioxide emission is taken into account in renewable energy investments and the policies that aim to increase the usage of renewable energy. Since the dataset used in the empirical analysis covers a short period of time and this may lead to the non-causality results between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy it is required to do new empirical analyses by using longer datasets in order to assess the relationship between these variables more accurately in the future.

Keywords: Renewable energy consumption, health care expenditures, carbon dioxide emission, European Union countries, Turkey

JEL Code: I10, Q20, Q40, Q54

1. Introduction

In recent years, carbon dioxide emission, the effects of carbon dioxide emission on economic growth and climate change and the decelerating impact of the renewable energy usage on

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climate change are intensively debated in the economics literature and hence, there are many studies which empirically investigate the relationship between carbon dioxide emission, economic growth and renewable energy in the existing literature.

Acaravcı and Öztürk (2010) investigate the relationship between energy consumption, carbon dioxide emission and economic growth for 19 European countries over the period 1960-2005 (The dataset covers 1970-2005 for Germany and 1965-2005 for Hungary.). The authors use Autoregressive Distributed Lag (ARDL) model in their empirical analysis and come to the conclusion that there is a long-run relationship between the variables under investigation for Denmark, Germany, Greece, Iceland, Italy, Portugal and Switzerland (Acaravcı and Öztürk, 2010). Bloch et al. (2012) examine the relationship between coal consumption and output in China over the period 1977-2008 and 1965-2008 by drawing on cointegration analysis and Vector Error Correction model. According to the results of the supply-sided analysis, it is found that there is a one-way relationship from coal consumption to output (Bloch et al., 2012). However, the results of the demand-sided analysis indicate a unidirectional relationship from output to coal consumption (Bloch et al., 2012). El Hedi Arouri et al. (2012) analyse the relationship between energy consumption, economic growth and carbon dioxide emission for Middle East and North African countries by using a dataset covering the period 1981-2005. In the empirical analysis, new panel unit root tests and cointegration analysis are used and it is found that while energy consumption has a positive effect on carbon dioxide emission there is a quadratic relationship between gross domestic product and carbon dioxide emission (El Hedi Arouri et al., 2012).

Doğan and Şeker (2016) investigate the effects of renewable and unrenewable energy on carbon dioxide emission for European Union countries over the period 1980-2012. In the empirical analysis, Dynamic Ordinary Least Squares (DOLS) methodology and Panel Granger causality test which is developed by Dumitrescu and Hurlin (2012) are used (Doğan and Şeker, 2016). According to the results of the empirical analysis, the authors argue that whilst there is a two-way relationship between renewable energy consumption and carbon dioxide emission the relationship between carbon dioxide emission-unrenewable energy and carbon dioxide emission-openness is unidirectional (Doğan and Şeker, 2016). Zoundi (2017) examines the effect of renewable energy on carbon dioxide emission and the validity of the environmental Kuznets Curve in 25 African countries by using a dataset covering the period between 1980 and 2012. According to the results of the empirical analysis, it is found that environmental Kuznets Curve hypothesis is not valid and renewable energy has a negative effect on carbon dioxide emission (Zoundi, 2017). Wang et al. (2018) analyse the relationship among urbanization, economic development, energy consumption and carbon dioxide emission for 170 countries with different income levels over the period 1980-2011. In the empirical analysis, panel cointegration, Granger causality tests, impulse response functions and variance decomposition are estimated (Wang et al., 2008). According to the results of the empirical analysis, the authors argue that there is a cointegrating relationship between the variables and among the energy consumption, economic growth and urbanization there is a two-way causality (Wang et al., 2008). Moreover, Wang et al. (2008) put forward that the relationship between energy consumption-economic growth and economic growth-urbanization is bi-directional.

To summarize, when we assess existing studies in the literature we find that although there are many studies which investigate the relationship between carbon dioxide emission, economic

growth and renewable energy none of these studies takes into account a health variable in their empirical analyses. The aim of this study is to fill this gap in the existing literature by examining the causality relationship between renewable energy consumption, health care expenditures and carbon dioxide emission for the European Union countries and Turkey. Accordingly, in the second section the dataset and methodology used in the empirical analysis are explained, in the third section the results of the empirical analysis are discussed in detail. Finally, in the last section the results of the empirical analysis are summarized and a general assessment is presented.

2. Data and Methodology

In this study, the dataset obtained from the World Bank World Development Indicators (World Bank, 2019) is used in order to investigate the causality relationship among renewable energy consumption, health care expenditures and carbon dioxide emission for 27 European Union countries[1] and Turkey over the period 2000-2014.

The variables used in the empirical analysis are as follows: per capita carbon dioxide emission (metric tons), renewable energy consumption as a ratio of total energy consumption (%) and current health care expenditures as a share of GDP (gross domestic product) (%). In the empirical analysis, all variables are used in natural logarithmic forms.

The causality relationship among renewable energy consumption, health care expenditures and carbon dioxide emission is analysed by using the methodology developed by Dumitrescu and Hurlin (2012) to test Granger causality in panel datasets.

The causality test developed by Granger (1969) can be stated by the following equation:

$$X_t = \sum_{k=1}^{m} a_k X_{t-k} + \sum_{k=1}^{m} b_k Y_{t-k} + \varepsilon_t \qquad (1)$$

In this equation, X_t and Y_t are stationary time series and ε_t is the error term. According to the basic assumption of Granger (1969) causality test, if past values of Y are statistically significant predictors of the current values of X even when past values of X have been included in the model, then Y has a causal effect on X (Granger, 1969; Lopez and Weber, 2017). This causality can be determined by testing the following hypothesis with an F test (Granger, 1969; Lopez and Weber, 2017):

$$H_0: \beta_1 = \ldots = \beta_m = 0 \qquad (2)$$

Rejecting the H_0 hypothesis indicates that there is a causal relationship from Y to X (Granger, 1969; Lopez and Weber, 2017).

Dumitrescu and Hurlin (2012) developed Granger (1969) causality test in order to apply it to panel datasets. The causality test of Dumitrescu and Hurlin (2012) can be stated by the following equation:

[1] The European Union countries which are included in the empirical analysis are as follows: Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. Malta was not included in the empirical analysis due the data limitation.

$$X_{i,t} = \alpha_i + \sum_{k=1}^{m} \beta_i^{(k)} X_{i,t-k} + \sum_{k=1}^{m} \gamma_i^{(k)} Y_{i,t-k} + \varepsilon_{i,t} \quad (3)$$

In this equation, X and Y are stationary variables observed during T periods for N individuals and $\varepsilon_{i,t}$ is the error term (Dumitrescu and Hurlin, 2012). In the above equation it is assumed that coefficients are time-invariant but they are allowed to differ among individuals (Dumitrescu and Hurlin, 2012; Lopez and Weber, 2017). Moreover, it is assumed that m is identical for all individuals and panel should be balanced (Dumitrescu and Hurlin, 2012; Lopez and Weber, 2017).

Similar to Granger (1969) causality test, H_0 hypothesis for the causality test developed by Dumisterscu and Hurlin (2012) states that there is no causality among the individuals in the panel dataset and this hypothesis is shown as follows:

$$H_0: \beta_{i1} = \ \ldots = \beta_{im} = 0 \qquad \forall i = 1, \ldots, N \quad (4)$$

This hypothesis is tested by using Wald statistic and the rejection of this hypothesis shows that there is a Granger causality (Dumitrescu and Hurlin, 2012; Lopez and Weber, 2017). It should be emphasized that this test analyses causality at the panel level and hence, it does not exclude the situation of non-causality between some variables in the panel (Dumitrescu and Hurlin, 2012; Lopez and Weber, 2017). Thus, the rejection of H_0 indicates that there is a causality relationship only for some individuals in the panel (Dumitrescu and Hurlin, 2012; Lopez and Weber, 2017). This test is calculated in Stata 13 by using the code written by Lopez and Weber (2017).

3. Results

As it is stated in the previous section, determining whether the panel dataset is stationary is required in order to do Granger causality analysis. Table 1 presents whether the variables are stationary or not according to the results of the Im-Pesaran-Shin (2003) unit root test and Fisher Type Augmented Dickey-Fuller unit root test (Choi, 2001). In the Fisher Type Augmented Dickey-Fuller unit root test p values obtained from different panel unit root tests are combined by using the methodology proposed by Choi (2001) (Stata, 2019). In both of the unit root tests H_0 hypothesis states that all panels contain unit roots and hence, the rejection of H_0 hypothesis indicates that panel is not stationary (Stata, 2019). According to the unit root test results (Table 1), all series contain unit root at the level, however when the first difference of the series are taken they become stationary. Thus, the first difference of the series is used in the Granger causality analysis.

Table 1. Im-Pesaran-Shin ve Augmented Dickey-Fuller Unit Root Test Results

Variables	Im-Pesaran-Shin Unit Root Test (W-t-bar Statistic)	Augmented Dickey-Fuller Unit Root Test (Inverse χ^2 Statistic)
Carbon Dio. Emission	6.7048	16.5797
Health Care Exp.	-0.3439	55.3704
Renewable Energy	6.5140	12.2692
ΔCarbon Dio. Emission	-13.5058***	192.5906***
ΔHealth Care Exp.	-10.5539***	203.5428***
ΔRenewable Energy	-10.8105***	195.3803***

Source: Authors' estimations.
Note: *** shows p<0.01. All tests are estimated by using a constant term. Lag length is selected according to the Akaike Information Criterion. Stata 13 is used for the estimations.

After investigating the stationarity of the series we estimate panel Granger causality test which is developed by Dumitrescu and Hurlin (2012). The results of this test are presented in Table 2.

According to the results in Table 2, there is not a causality relationship between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy. However, there is a one-way causality relationship between carbon dioxide emission and renewable energy and the direction of this relationship is from carbon dioxide emission to renewable energy. It can be stated that the reason why there is not a causality relationship between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy stems from the fact that the dataset covers a short period of time (2000-2014). The existence of a one-way relationship between carbon dioxide emission and renewable energy indicates that the level of carbon dioxide emission is taken into account in renewable energy investments and the policies implemented to increase the consumption of renewable energy in the European Union countries and Turkey. Without doubt, together with the increase of the share of renewable energy in total energy consumption renewable energy will be influential on carbon dioxide emission in the future.

Table 2: Panel Granger Causality Test Results

Hypotheses	Granger Causality Test Results (Z-bar tilde Statistic)
Health care exp. does not Granger cause carbon dioxide emission.	1.4370 (p-value: 0.1507)
Carbon dioxide emission does not Granger cause health care exp.	0.0307 (p-value: 0.9755)
Renewable energy does not Granger cause carbon dioxide emission.	1.4347 (p-value: 0.1514)
Carbon dioxide emission does not Granger cause renewable energy.	2.8094 (p-value: 0.0050)
Health care exp. does not Granger cause renewable energy.	-0.6722 (p-value: 0.5014)
Renewable energy does not Granger cause health care exp.	0.1574 (p-value: 0.8750)

Source: Authors' estimations
Note: Panel Granger causality test is estimated in Stata 13 by using the code written by Lopez and Weber (2013). Lag length is selected according to the Akaike Information Criterion.

4. Conclusion

In recent years, although there are many studies which empirically investigate the relationship between energy consumption and carbon dioxide emission the number of studies which examine the causality relationship among renewable energy consumption, health care expenditures and carbon dioxide emission is very low. The aim of this study is to examine the relationship among renewable energy consumption, health care expenditures and carbon dioxide emission in the European Union countries and Turkey empirically.

In the empirical analysis, it is tried to determine the direction of causality relationship among renewable energy consumption, health care expenditures and carbon dioxide emission by applying panel Granger causality test developed by Dumitrescu and Hurlin (2012) to a dataset covering the period 2000-2014 for the European Union countries and Turkey. According to the results of the empirical analysis, it is found that while there is not a causality relationship between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy there is a one-way relationship between carbon dioxide emission-renewable energy and the direction of this relationship is from carbon dioxide emission to renewable energy. The existence of a one-way relationship between carbon dioxide emission and renewable energy indicates that the level of carbon dioxide emission is taken into account in renewable energy investments and the policies implemented to increase the consumption of renewable energy in the European Union countries and Turkey.

It can be stated that the reason why there is not a causality relationship between health care expenditures-carbon dioxide emission and health care expenditures-renewable energy stems from the fact that the dataset covers a short period of time (2000-2014). Hence, in order to reach more reliable and robust results new empirical analyses which use longer time periods should be done in the future.

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CHARACTERISTICS OF PLASTIC BAG FEE AND THE EVALUATION OF THIS FEE BY MEANS OF FISCAL AND ENVIRONMENTAL POLICY

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Abstract

In many countries of the world and mainly in European countries, implementations in order to reduce the use of plastic, by means of academic, administrative and political efforts, have resulted in the form of scientific reports, conventions, directives and legal regulations at national and international level. The implementations are rapidly spreading.

In parallel to these developments in Turkey, a new and integrated environmental policy began with the "Zero Waste Project" in order to implement waste segregation at source, reduce and recycle waste. In this context, the first legal step was taken to reduce the use of plastic by a series of legal regulations known as “plastic bag fee regulation”. The goal was determined as reducing the amount of annual average plastic bag usage by 90%, from 440 to 40 per capita. After that, it is foreseen to establish a recycling infrastructure which will be financed by the revenues, to be obtained from the plastic bags. This development, of course, necessitates the pursuit of an environmentally motivated fiscal policy that supports the new environmental policy.

In this study, first of all the characteristics and elements of the plastic bag fees will be emphasized, and after determining the type of income of this fee, the issue will be evaluated by means of fiscal and environmental policies. Afterwards, some countries which have realized the same issue will be evaluated and it will be comparisoned with the situation in Turkey. In the final chapter suggestions to the problems which can be encountered during the implementation will be made.

Keywords: Fiscal Policy, Environmental Policy, Public Revenues, Environmental Taxes

JEL Code: H23, H30, K32

1. Introduction

In order to reduce the environmental pollution caused by plastic bags, Additional Article 13, entitled‘plastic bag fee’, is included in the Environmental Law No. 2872; with the article 8 of the Law dated 29/11/2019 and numbered 7153. With this additional article, it was decided that the plastic bags would be sold to the user or the consumer for not less than 0.25 TL per unit.

With the same legal regulation, Additional Article 11 entitled ‘The recovery contribution fee’ and Additional Article 12 entitled ‘Deposits’ were included in the environmental law in order to complement the plastic bag fee regulation. Provisions regarding the recovery contribution fee (recycling tax) have been implemented since 1/1/2019.

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It was stated that plastic bag usage reduced by half and the number of plastic bags used per capita was reduced by 90% from 440 to 40. (https://www.haberturk.com/bakan-kurum-plastik-poset-kullanim-sayisini-kisi-basi-40-a-dusurmek-istiyoruz-2381026-ekonomi) Given and targeted numbers present the clues of the environmental policy, aiming for prevention of environmental pollution caused by plastic bags, with the steering fiscal policy as well. The numbers given, show this very significant development and progress in the first place.

In this study, first of all the characteristics and elements of the plastic bag fees will be emphasized and the issue will be evaluated by means of fiscal and environmental policies. Afterwards, some countries will be evaluated which have realized the same issue, and a comparison will be made with the situation in Turkey. In the final chapter, suggestions to the problems will be made which can be encountered during the implementation.

2. Elements and Characteristics of Plastic Bag Fee

Since the title of Additional Article 13 is 'the plastic bag fee', the money received is considered as the cost of the plastic bag in the public opinion. However, the article regulates the minimum plastic bag cost, which is obtained by the seller from the user or consumer, and it includes the recovery contribution fee (recycling tax). Public revenue within the price was determined as 0,15 TL. in the list No. 1 of the Law No. 2872 with reference to the Additional Article 11 titled 'the recovery contribution fee'. In other words, the consumer pays the cost of the plastic bag as 0,25 TL., while the recovery contribution fee that is hidden within this price which is paid indirectly. As a result, consumer pays 0,08 TL. plastic bag fee, 0,02 TL. value-added tax and 0,15 TL. the recovery contribution fee (recycling tax).

The recovery contribution fee is a financial obligation, oriented to the public service about environmental pollution prevention in the scope of recycling of waste. The recovery contribution fee is different from the cost of the plastic bag. The plastic bag cost was previously free for the consumer, which was covered by the seller or reflected to the product prices.

In this respect, the recovery contribution fee is similar to indirect tax such as Value Added Tax and Special Consumption Tax. At the same time, it is directly taken for a specific public service -waste recycling-, and due to the fact that the payer will benefit indirectly from this service, brings this type of income closer to charges.

It is similar to the fee revenues in terms of its relation with the market price and its appearance. However, like VAT, being taken from everyone who gets plastic bag, it eliminates the possibility of describing this contribution fee as charge or fee.

All of these features indicate that the recovery contribution feeis an indirect tax-like financial obligation hidden in the plastic bag price. At the same time, this financial obligation can be considered as environmental tax because of the fact that it is taken directly with environmental motivation. In this case we meet a new environmental tax after the Environmental Cleaning Tax, which is taken directly for environmental purposes in Turkey. Here it should be stated that the VAT taken as 0.2 TL per bag is not an environmental tax but a beneficial tax for the environment

because of its effect on increasing the cost of the pollution-generating product. (Ercan, 2015: 211).

3. The Role of Bag Fee in Fiscal and Environmental Policy

As mentioned above, the plastic bag fee includes the recovery contribution fee which can broadly be considered as a tax. The reason for introducing the plastic bag fee and recovery contribution fee is the prevention of environmental pollution. This statement is actually a direct reference to the prevention principle of the principles of environmental law.

While the goal is primarily reducing the use of plastic bag, there is no hesitation about presence of the prevention principle. On the other hand the polluter pays principle comes to life with the expression of the recovery contribution fee and the exemption regulation in the last paragraph of Additional Article 11. As a matter of fact, when the deposit regulation in Additional Article 12 is considered with the other articles as well, it is understood that Turkey has revealed a holistic environmental policy on waste reduction at source and waste recycling.

Pursuant to the aforementioned provisions, fiscal policy should be carried out in accordance with environmental policy. The recovery contribution fee can be considered as steering tax as it reveals the prevention and polluter pays principles. Also, the ones who implement the deposit mentioned in the Additional Article 11 are exempted from the recovery contribution fee. In addition to these, with the amendments made on 21/2/2019 about notification and collection methods of recovery contribution fee are considered together with the aforementioned matters, it is understood that the fiscal policy is being implemented integrated with the environmental policy. As a matter of fact, the Ministry of Treasury and Finance has been authorized for taking the opinion of the Ministry of Environment and Urbanization on the subject about declaration periods of the plastic bag fee, changing and extension of these periods. Also tax offices have been determined as collection offices.

4. Major Examples of The World

“2018 Report on Single-Use Plastics” of The United Nations Environment Program (UNEP) includes the laws about plastic bag and their consequences in many countries in the world. Accordingly, some countries try to reduce the use of plastic bag by means of charging or taxation, while in some countries cooperation with the private sector or direct prohibition is preferred. (Single-Use Plastics, A Roadmap for Sustainability, 2018: 27 vd.)

The European Union, with the Directive 2015/720, introduced an obligation to Member States in order to reduce the average annual plastic bag consumption to 90 per person by the end of 2019 and to 40 by the end of 2025. This target is consistent with Turkey's 2023 targets. The European Union has not imposed any restrictions about the method used in the member countries for achieving this goal. (Measures to reduce the consumption of plastic bags and disposable tableware, 2017: 1) In 2030, it is aimed to switch to a system where all plastic packaging can be recycled or reused. (European Commission, “Questions & Answers: A European strategy for plastics”, 2018: 1)

To give an example from EU countries, Ireland preferred taxation and introduced plastic bag tax (PlasTax) in 2002. In 1990s approximately 328 plastic bags were consumed per capita each year, but today this number is dropped under 21 per capita. Also The PlasTax is gathered in an environmental fund under the administration of the Ministry of Environment and is used in environmental investments. In Denmark after the law about plastic bag fees came into force, the consumption of 19,000 tonnes in 1993 decreased by 55% to 9.000 tonnes in 2015. In Greece, charging plastic bag fees started in 2018 and consumption was rapidly decreased by 75-80%. In accordance with the regulations initiated by the supermarkets in Belgium, the plastic bags are charged as of 2007. In ten-year period, the use of plastic bags decreased by almost 80%. Some federated states, such as Wallonia and Brussels in Belgium, prefer prohibition. United Kingdom, the Netherlands, Portugal, Romania, Bulgaria, Estonia, Czechia and Croatia could be added to the European countries that have made progress by the economic instruments in other words the steering fiscal policies. Brazil, Colombia, Fiji, Indonesia, Malaysia, Taiwan and Vietnam are among the countries that try to reduce the use of plastic bags with economic instruments in the world. (Single-Use Plastics, A Roadmap for Sustainability, 2018: 27 vd., Measures to reduce the consumption of plastic bags and disposable tableware, 2017: 1 vd.)

Some countries, such as Germany, prefer both prohibition and charging.Waste collection and transformation activities are carried out by public-private cooperation, and 80% of the fees are collected by the contracted firm. There is a similar implementation in Austria as well. In Sweden, operators and producers are obliged to provide periodic information to the Environmental Agency. Thus, the amount of plastic usage is monitored, and with the help of some awareness activities, it is aimed to reduce the rate of use to the targeted levels. In case the usage rate does not decrease, the measures are reviewed and revised. (Single-Use Plastics, A Roadmap for Sustainability, 2018: 27 vd., Measures to reduce the consumption of plastic bags and disposable tableware, 2017: 1 vd.)

France, Italy, Catalonia State of Spain and two Belgian states are the major European countries that prefer to ban disposable plastic bags. In these countries, plastic bags are prohibited whose dissolving is difficult in nature and exceed certain limit values. There are similar implementations in India, China, South Africa, Kenya and Morocco. There was a 60-80% decrease in plastic bag use in China. (Single-Use Plastics, A Roadmap for Sustainability, 2018: 27 vd., Measures to reduce the consumption of plastic bags and disposable tableware, 2017: 1 vd.)

The system in Turkey, includes both the fee implementation and taxation. Over 40 micron bags with double layer thickness are subjected to fee and tax (plastic bag fee)(Procedures and Principles for the Charging of Plastic Bags dated 09/01/2019 and numbered 6267, Art.5/11). The tax named recovery contribution fee of plastic bags are collected by the Ministry of Treasury and Finance and counts as revenue in the general budget. However, in accordance with the amendment made in the second paragraph of Article 18 of the Environmental Law, the amount of the revenue obtained here has to be transferred to the Ministry of Environment and Urbanization.

This implementation is similar to the example of Ireland. Turkey's targets about plastic bag reduction are consistent with EU Directive No. 2015/720. It is understood that the European Union Directive plays a decisive role in determining the objectives. The cost of the plastic bag is

not public revenue, the cost price of the plastic bag is charged from the consumer. So there is a nature about the prevention principle.

With the last amendments, Ministry of Treasury and Finance will collect the plastic bag fee declarations and payments; it would be difficult for the Ministry of Environment and Urbanization to monitor the data in order to carry out a healthy environmental policy at the point of taking necessary measures. In order to prevent this, it is necessary for the Ministry of Environment and Urbanization to access the plastic bag consumption and collection data, and to review the environmental policies according to these data. Otherwise, the environmental tax characteristic of the recovery contribution fee may be eliminated and this tax may become a financial tax.

5. Conclusion

The cost of the plastic bag including the recovery contribution fee is mainly taken with environmental motivation. With this cost, the purchasing and selling price of the plastic bag will be directly reflected to the consumer and thus the consumer will avoid using bags. Also with the recovery contribution fee used in recycling services, pollution caused by the plastic bags will be reduced.

It is foreseen that these revenues will not only be used for plastic bags but also for the other plastic packaging waste and for the realization of the deposit implementation as well. With the latest amendments dated 21/2/2019, although the collected taxes are to be recorded as revenue to the general budget, the equivalent value will be used in establishing the recycling infrastructure in order to reduce the plastic waste. So it should be ensured that the equivalent value must be transferred to the Ministry of Environment and Urbanization as per the amendment made in the Environmental Law. In the absence of financial means, limited progress will be achieved, and it will not be possible to execute the recycling and deposit system.

Although the use of plastic bags will continue to decline due to the price of a plastic bag, there will be garbage bags. This will inhibit the use of plastic bags below a certain amount. For this reason, the production and distribution of standard waste bins that will not require the use of garbage bags should be considered and fiscal policies should be developed to encourage the recycling of plastic garbage bags.

Furthermore, since the declarations and payments will now be made to the Ministry of Finance and Treasury instead of the Ministry of Environment and Urbanization, it is important for Ministry of Environment and Urbanization to take necessary measures in order to monitor the sector's declarations and other relevant fiscal data, harmonize fiscal and environmental policies, review the environmental policies in accordance with the developments and revise them if necessary.

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COMPARISON OF OLD AND NEW PREVENTION OF DOUBLE TAXATION AGREEMENT BETWEEN TURKEY AND GERMANY

Ali EROL[1]

Abstract

Double taxation agreements, the most important instrument of international tax law, two or more countries use eliminating double taxation in the narrow sense, can be concluded in any matter related such as preventing tax evasion, encouraging foreign capital, and providing information exchange in the broad sense. Countries make concessions on their power of taxation through double taxation agreements and they prevent more than one taxation of person and institutions.

The first international tax agreements was made in 1843 in order to collect tax easily between France and Belgium. Preventing the double taxation agreements started after World War II and more than two thousand double taxation agreements have signed until today. Turkey also approximately made double taxation agreements.

Germany terminated unilateraly the double taxation agreement which is signed on 16.04.1985 and applied from on 01.01.1990 between the Republic of Turkey and the Federal Republic of Germany. The main reason for Germany's to abolish the old agreement, emigrated Turkish citizen are not be taxed who work and retired in Germany. According to the old agreement between two countries, taxation authority of pensioners belong to the resident country. However, according to the Turkish legislation, all pensions paid by social security institutions in foreign countries are exempt from income tax. The agreement, which terminated for a variety of reasons, mainly for this reason, was signed on 19.09.2011 and started to enter into force as of 01.01.2011. In this study, the old and new agreements on prevention of double taxation betweenTurkeyand Germany are comparatively examined.

Keywords: Tax, Taxation Authority, Double Taxation, Termination, Turkey, Germany.
JEL Code: H20, H24, H71

1. Introduction

Signed on 16.04.1985 between Turkey and Germany, and is being implemented "Income and Wealth Avoidance of Double Taxation Agreement with Respect to Taxes" due to need for renewed negotiations were initiated and Germany was uniterally terminated on 21.07.2019. According to the statement made by Germany, this termination process will be implemented as of 01.01.2011, and in the 2009 and 2010 taxation period will be applied in the old accretionary provisions and finally the new agreement will be completedby 2011 until the latest 01.01.2011 and will not be born of any kind of victimization. However, no new agreement has been introduced despite the date of 01.01.2011. With a delay of nine months, "Agreement Between the Republic of Turkey and the Federal Republic of Germany for the Avoidance of Doıble Taxation

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and of Tax Evasion" were signed between the two states on 19.09.2011 in Berlin. (Tuncer, 2012a: 9).

According to the 1982 Turkish Constitution, an international agreement must be submitted to the Grand National Assembly of Turkey and approved to enter into force. After the agreement was signed, it was immediately submitted to the Grand National Assembly of Turkey and was published in the Official Gazette dated 27.12.2011 and numbered 28155. Finally, the legal formality was completed by the decision of the Council of Ministers on 16.01.2012.

2. Double Taxation Agreements

Double taxation agreement, are tax agreements that allocate taxation powers of states to prevent taxation of taxpayers more than once through multiple taxes, income, wealth, or any tax agreed upon (Başak, 2007:265). It falls with in the scope of these agreements and enters into the subjects of wealth taxes; commercial gains, gains from real estate assets, interest in come, international transportation revenues, revenues from self-employment, salary in come, artist and sports income, realestate rights, capital value increase earnings, income of company board members, pensions, teacher and students' income and earnings (Uzbek, 2015: 25).

The main aim of avoiding double taxation agreements is to eliminate the existing or existing double taxation situation and to prevent the taxation of the same income, income or wealth by dividing the taxation powers of states (Sönmezocak, 2018). In addition to the prevention of double taxation by these agreements, it will be ensured that the taxation by international transfer pricing or other conditions will be prevented by means of the benefits such as the fact that the contracting states make the concepts of taxation uniformand increase the exchange of information between the administrations (Yitzhak,, 1972: 122).

The Republic of Turkey has not signed any multilateral agreement aimed at preventing double taxation. The first bilateral agrrement was signed on 24.09.1973 with the Republic of Austria and the agreeement to prevent double taxation signed until today is 89. (Sönmezocak, 2018).

3. Comparison of Agreement Between Turkey And Germany

When the old and new agreements between the two countries are compared, many changes are observed. First, in terms of the persons involved; In accordance with Article 1 of the former Convention, the Convention applies to persons who are residents of one or both of the Contracting States. The term "person" refers to any natural person or any company. According to the first article of the new agreement, the term "person" has been expanded. According to the said article, the person comprises a natural person, a company and any other body of persons. As can be seen, the concept of the person in the new agreement was wider and included other institutions and organizations outside the real persons or institutions. Considering the change in taxes on taxes, wealth taxes were included in the agreement, but wealth tax was deducted from the new agreement. The reason for this is that since Germany lifted the fortune exhibition in 1996 and the commercial wealth tax in 1988, wealth tax was not required in the new agreement. In addition, the term "taxes covered" is used in the old agreement, but the term

"taxes covered" is used in the new agreement. In the new agreement, only the income tax is a matter of agreement and the scope of these taxes will be determined as follows (Öner, 2016:41):

- Taxes on gains on transfer of securities or real estate,

- Taxes on salaries or wages paid by undertakings,

- Taxes applied to capital value increases and

- All taxes on total income or income.

As you can see, what ever the way; Corporation Tax and Income Tax in relation to Turkey, and Germany in terms of the Income Tax, Corporation Tax and Trade Tax and tax, which are covered by the new agreement. Again, according to the old agreement, if any of the Contracting States shall add to the existing taxes or replace them with another tax after the date of signing of the Agreement, the other States hall be notified. Contrary to the old agreement, important and substantial amendments to the agreement must be communicated to the other Contracting State (Öner, 2016: 44).

Lastly, the comparison of the fourth article of the person or institution determining the point of attachment, the term financial residence was replaced by the resident. Thus, instead of connecting to a legal institution in the old agreement, the point of personal attachment in the new agreement will be sought. The concept of the resident has various functions and is important in such cases (Öner, 2016: 45):

- Determines the application area of the agreement,

- Solves the problem of double taxation resulting from a double-occupationand

- Resolves the problem of double taxation as a result of taxation in the resident state and the source or taxation in the state.

The following Table 1 Changes in the old and new double taxation avoidance agreement between Turkey and Germany have shown as material. In addition to the changes in the scope of persons or taxes, a number of amendments have occurred.

Table 1. Comparison of Old (1985) and New (2011) Prevention of Double Taxation Agreement Between Republic of Turkey and Federal Republic of Germany

Old Agreement (1985)		**New Agreement (2011)**	
Article Number	**Title**	**Article Number**	**Title**
1	Persons	1	Persons covered
2	Taxes	2	Taxes covered
3	Genral definbitions	3	Genral definbitions
4	Financial residance	4	Resident
5	Workplace	5	Permanent establishment

6	Income from immovable property	6	Income from immovable property
7	Business profits	7	Business profits
8	Shipping, land and air transport	8	Shipping and transport
9	Assoc.d enterprises	9	Assoc.d enterprises
10	Dividend	10	Dividend
11	Interest	11	Interest
12	Royalties	12	Royalties
13	Capital gains	13	Capital gains
14	Independent personal services	14	Independent personal services
15	Dependent personal services	15	Dependent personal services
16	Payments to managers	16	Directors' fees
17	Artistes and sportsmen	17	Artistes and sportsmen
18	Pensions	18	Pensions
19	Government service	19	Government service
20	Teachers and students	20	Teachers and students
21	Other income	21	Other income
22	Wealth	22	Elimination of double taxation
23	Elimination of double taxation in resident country	23	Non-discrimination
24	Non-discrimination	24	Mutual agreement procedure
25	Mutual agreement procedure	25	Exchange of information
26	Exchange of information	26	Assistance in the collection of taxes
27	Members of diplomatic missions and consular posts	27	Procedural rules for taxation at source
28	Berlin state	28	Members of diplomatic missions and consular posts
29	Entry into force	29	Protpcol
30	Termination	30	Entry into force
		31	Termination

Source: Tuncer, 2012:12.

4. Conclusion

The Federal Republic of Germany and the Republic of Turkey eliminating financial barriers to improve bilateral economic relation sand the desire to streng then their cooperation in tax matters, have a deal again.

The title of the old agreement "Republic of Turkey with the Federal Republic of Germany Between Income and Prevention of Double Taxation Agreement on Excises Wealth On Me" is the new deal title, "Agreement Between the Republic of Turkey and the Federal Republic of Germany for the Avoidance of Doıble Taxation and of Tax Evasion", the countries not only avoided avoiding double taxation, but also the need to serve to prevent tax evasion.

Since the two countries are members of the OECD, the new agreement has been signed with the OECD Model. However, the intensification of the relations between the two countries has caused many differences in terms of form and content.Therefore, the new agreement, which was envisaged to be completed without entering 2011, could be signed in September with a delay of nine months. When the clauses of the agreement are examined one by one, it is seen that the concepts mentioned in some articles are not fully in Turkish tax legislation.

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TAXATION OF THE INCOME ARISING FROM THE RIGHT TO CLAIM OBTAINED FROM PRE-PAID HOUSING SALES IN THE SCOPE OF INCOME TAX CODE

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Abstract

Pre-paid housing sales contract is a consumer contract between the consumer and the seller. This contract is mostly made in the form of preliminary property sales contract. Right to claim between the parties will be arised with this contract. Therefore, it is also possible for the consumer to transfer this right.

It is controversial whether the income obtained from the transfer of this right will be taxed under the Income Tax Law. There are three main views on this issue, which were discussed in the doctrine before. According to the first, this gain is a capital gain. Secondly, this gain is an occasional commercial gain. According to the last opinion, this gain cannot be evaluated under the Income Tax Law and therefore cannot be taxed. Within the scope of this study, these views in the doctrine were examined.

One of the results achived in this subject is that the terms are not in line with the terminology of civil law. In fact, the concept of "the right to buy housing" should be corrected as the right to claim. Also it is concluded that the income obtained from the transfer of the claim will not be considered as an capital gain within the scope of of the Income Tax Code. The expansion of the article of the law to include this gain, is primarily against the principle of the legality of the tax which sourced from the Constitution. Finally, it is stated that this gain cannot be described as occasional commercial gain if it is obtained from the preliminary property sales contract which is risen from the pre-paid housing sales. Since only the consumer can be a party of a pre-paid housing sale, this prevents all transactions from being considered as commercial.

Keywords: pre-paid housing sales contract, preliminary property sales contract, capital gain, occasional commercial gain
JEL Code: K11, K12, H24

1. Introduction

Over the past two decades, the economy of Turkey the economy of our country has been largely based on the construction sector. The grievances encountered in the construction sector have required the protection of buyers. As a result of this understanding, immovable properties, contrary to the comparative law and the European Union Directives, had included in consumer law with amendments made in 2003. However, these amendments were not sufficient, and the

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new consumer law came into force in 2014 specifically in order to harmonize the other provisions of the consumer law with the EU Consumer Law regulations.

Pre-paid housing sales contracts regulated in this code in detail. Pre-paid housing sales contracts enable the consumers to obtain the real estates that are not built in return for the appropriate costs, while the sellers also have the opportunity to complete their contract by financing the sales without fulfilling their contractual obligations.

Pre-paid housing sales contracts can be made in the form of sales at the land registry or preliminary contract for sale at the notary public. However, this contract between the consumer and the seller is mostly made in the form of the preliminary sales contract. Although the goal of consumers is to have the houses they dreamed of, it is possible that they can transfer the right to claim which is obtained with the preliminary sales contract within the framework of the assignment of claim. The issue we discussed in our study is whether the assignment of the claim arising from the preliminary sales contract is a taxable income under the Income Tax Law. During this discussion, whether the earnings of the real person from transferred right to claim, is a value increase gain or is it a commercial gain will be analyzed.

2. Pre-Paid Housing Sale

2.1. General Background

In the first referral text of the Law on the Protection of Public Consumers (Law No. 4077 on Consumer Protection), immovables were outside the scope of the consumer law. With the radical amendment made by Law No. 4822 in 2003, immovable properties used as domicile or for holiday purposes were included in the consumer law by taking into account the concept of goods. However, despite the amendment made by Law no. 4822, this type of contract continued to be mentioned in practice with different names such as sales from the land or sales from the project, and legal regulations did not prevent the increase of the number of consumers who con not claim their houses and lost their investments. Prepaid housing sales contracts (PHSC) are regulated in detail in Turkish Law with the Law no. 6502 Consumers Protection Code (CPC) and the Regulation on Pre-paid Housing Sales (hereafter will be referred as Regulation) as a result of the need to eliminate the unjust treatment by protecting the consumers in an effective manner.

PHSC, is defined as "*a contract for which the consumer has to pay the price of a residential real estate in advance, and then the seller undertakes to hand over or transfer the immovable to the consumer after the full or partial payment of the price."* in Law n. 6502 art. 40 and the Regulation art. 4/ğ.

It is seen that the legislator shaped the PHSC on four elements: the time of performance, consumer, seller and housing. The most important concept to be defined within the scope of this study is the consumer. The notion of consumer is defined in Law no. 6502 "*as a natural or a legal person who is acting without the commercial or professional intent*". This definition has been preserved in the Regulation art. 4/i. Therefore, these immovables must be purchased for

personal purposes such as housing without any commercial or professional needs. (Özmen & Vardar Hamamcıoğlu, 2016: 16; Makaracı, 2015: 242; Acar, 2015: 13).

2.2. Preliminary Sales Contract

According to art. 41 of PCP, pre-paid housing sales can be drafted in two types of contracts. These are immovable property sales contract at the land registry or preliminary contract of sale of an immovable property at the notary public. (Çabri, 2018: 93; Gümüş, 2014: 249-250; Aslan, 2014: 456). However, in practice preliminary sales contract is frequently encountered.

The preliminary sales contract which has significant importance in our study, is a contract that oblige to make the necessary will statements to the parties of the contract in order to make an immovable sales contract in the future. (Akipek & Akıntürk, 2009: 472; Eren, 2014: 223). As it is generally accepted by doctrine and supreme court decisions, it is a precontract (Tekinay & Akman & Burcuoğlu & Altop, 1989: 691-692; Kocayusufpaşaoğlu, 1959: 67; Akipek & Akıntürk, 2009: 472; Eren, 2016: 235; 1986: 6; Ayrancı, 2006: 40; Sirmen, 2017: 363; Özmen & Vardar Hamamcıoğlu, 2016: 37; İnal, 2011: 2017-208). Here, the obligation of the parties is to make a sales contract at the land registry office, but not to deliver the property. With the preliminary sales contract, the parties shall have the right to claim arose from the contract and this right may assign to a third person according to the provision granted in the Turkish Code of Obligations art. 183 et al. (Eren, 2014: 223). The legal problem to be addressed in our study is that whether the income to be obtained in case of assignment of claim can be taxed under the Income Tax Code (ITC).

3. Evaluation of the Assignment of Claim Arose from PHSC in Terms of Income Tax

3.1. Legal Framework

It is controversial whether this income can be taxed or not if a real person makes a profit by assigning a claim to a third party. When ITC rep. art. 80/6 and art.70/4 interpreted together, it is accepted that, if a right registered as immovable property transferred within five years from the date of acquisition, the gain is recognized as income and taxed according to the provisions of the ITC.

3.2. Existing Remarks

According to one opinion, it is necessary to take into account any benefits that are provided in return for disposal and have a monetary value in the framework of the ITC (Dikmen, 2010: 345; Alkın & Şenses, 2014: 106). The fact that the right is a registerable right is sufficient in terms of taxation (Demireller, 2004: 40). Therefore, it is possible to tax the gain obtained from the assignment of claim. (Dikmen, 2010: 40; Alkış & Şenses, 2014: 106). Otherwise, it is stated that it is possible for taxpayers to avoid tax in such ways (Dikmen, 2010: 39).

Opposite opinion is that it does not qualify as gain obtained from assignment of claim as capital gain (Akın & Kara, 2018: 147; Demireller, 2004: 92). According to this opinion the provision of the law states that only registered rights can be taxed under the ITC rep. art. 80. The scope of the provision cannot be extended as "registerable right" when it states, "registered rights" (Akın & Kara, 2018: 147: Demireller, 2004: 93).

According to another opinion, the gain arising from the transfer of assignment of claim is not included in the capital gain tax but falls within the scope of incidental commercial gain (Akın & Kara, 2018: 147). Thus, the gains obtained from the sale of the immovable property rights without an element of continuity should be qualified as incidental gain under this provision. On the other hand, another author mentions the difficulty of identifying this process as an incidental transaction (Demireller, 2004: 95).

3.1. Assessment

The right to claim can not be registered within the framework of the principles of the property law. Because in the light of the Turkish Civil Code art. 705, 780, 840 and 856 it is seen that only rights in rem will be registered. The right to claim arise from preliminary sales contract which is not a right in rem, but a relative right.

At this point, it should be emphasized that the concept *"registrerable*" is inaccurate. First of all, it is not possible to register a right to claim, or any othe rights arised from contracts. Because it is exhaustively listed that only rights in rem which are ownership and limited rights in rem can be registered in TCC. In our opinion, the authors in this view mistakenly confuse the establishment of registration with the notion of annotation. Because the rights that can be annotated is listed in Turkish Civil Code and in various laws within the scope of numerus clausus pricinple. The preliminary sales contract and the right to claim arise from it is can be annotated in the land register. However, annotation will not change the fact that the gain obtained from the assignment of claim is still not registered, therefore is not in the scope of capital gain according to ITC rep. art. 80.

The extension of the aforementioned provision to include the right to claim, which is not a right in rem, shall result in a violation of the principle of legality of the taxation arise from the Constitution. The principle of the legality of the tax requires not only the taxation, but also all duties and procedures related to taxation regulated through the laws (Güneş, 2014: 133; Öncel & Kumrulu & Çağan, 2018: 49; Koyuncu, 2016: 154). According to the Constitutional Court, the basic constituent elements of the tax such as subject, base, rate, accrual, and statutory limitation of tax must be established by tax laws (Saban, 2015: 63). The subject of the tax, which is one of the founding elements of the tax, is the goods, actions, cases, legal or commercial transactions, economic values or social situations on which the tax is taken (Güneş, 2014: 134; Öz, 2004: 72). However, in ITC provision which says that the gain arose from transfer of registered rights are taxable as capital gain, is definite in a manner that will not leave any room for expansion. For these reasons, it does not seem possible to tax the gain from the transfer of the right to claim as a capital gain.

4. Conclusion

In conclusion when the provisions of ITC are examined, it is not possible to evaluate the gain obtained from the assignment of claim, as capital gain. Because provisions of ITC only the gain obtained from the transfer of registered rights shall be considered as the value increase gain. In the case of the transfer of the right to claim obtained in accordance with the preliminary sales contract, this right is not a registered right and does not fall under the scope of this provision. The attempt to expand the provision to include this gain, will result in a violation of the principle of the legality of the taxation.

Secondly, it is not possible in the framework of the existing legal regulations that the gain obtained from the assignment of claim arising from the PHSC to be taxed either as commercial or incidental commercial gain. Because, in order to be able to mention the existence of a PHSC, in the context of CPC, one of the parties must have the title of consumer. The real person who has the title of consumer must have acquired this immovable property non-professionally and non-commercially. Because the consumer is acting for purposes which are outside his/her trade, profession or commerce and for this reason the assignment of claim cannot be seen as a commercial gain.

As a result of these explanations and interpretations the gain obtained from the assignment of claim obtained through PHSC, is not covered by the ITC regardless of the acquisition method and the date of acquisition.

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MOTOR VEHICLES TAX: SOME PROBLEMS AND EVALUATIONS

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Abstract

Motor Vehicle Tax, referred to as a wealth tax in the Turkish tax system, is determined in line with various vehicle types and features according to Law No. 197. With the regulation that came into effect in 2018, vehicle value is now also taken into consideration in tax base determination in addition to various aspects such as model year, type, engine capacity and weight. Therefore, the ad valorem tariff based on vehicle value has come into practice together with the specific tariff applied before, and a compound tariff structure has been adopted.

However, the fact that no obligation regarding CO_2 emission has been included in the new regulation is being criticized with regards to environmental protection in accordance with Article 56 of our Constitution. Considering the total emission by 22,865,921 registered vehicles according to the latest data by the Turkish Statistical Institute, it is clear that the new regulation contains deficiencies with respect to constitutional obligations. The motor vehicle tax, primarily intended to prioritize environmental protection in the European Union, still prioritizes fiscal purposes in Turkey.

Due to all these developments, the issues arising from the new tariff have been discussed and various solutions have been suggested in compliance with the purpose of the study. In addition, the points that are in conflict with taxpayer interests in tariff no. I/A still in effect as part of the new regulation have been discussed, and assessment have been made with regards to taxation principles. Also, practices in the EU and in Turkey have been compared, and similarities between practices in member states have been pointed out to serve as a model.

Keywords: Motor Vehicle Tax, Vehicle Value, Environmental Tax, CO_2 Emissions
JEL Code: K34, H20, H23

1. Introduction

Motor vehicle tax is one of the wealth taxes in terms of the Turkish taxation system, and has a larger share in tax revenue compared to the inheritance and transfer tax and the real estate tax. From this point of view, motor vehicle tax is one of the instruments that can be used not only for financial purposes, but also for various other purposes. Therefore, it brings several expectations within the context of both literature and legislation. It is subjected to various amendments in order to adapt to new technological developments and international regulations. Regulations brought with the Law No. 7061 are the most recent example to this. Conversion of the tariff structure to a mixed tariff for cars and similar vehicles has caused several new situations to arise.

In this context, the study will elaborate various problems brought by the new regulations in the Motor Vehicle Tax Law No. 197, and explain the deficiencies of the legislation based on examples. In addition to this, connection of the environmental protection duty within the scope of Article

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56 of the Constitution with the motor vehicle tax will be discussed, and suggestions will be made for preventing the negative externality caused by the vehicles. In this context, motor vehicle tax practices attaching particular importance to environmental protection in the European Union will be explained, and these will be compared with Turkey within the scope of various solution suggestions.

2. Motor Vehicle Tax in Turkey

Motor vehicle tax is a direct wealth tax on the registration of motor vehicles listed in the law. It is an objective tax as it does not take into account the personal status of the taxpayers, and it is a specific tax as it is only about the motor vehicles rather than all the elements of wealth (Oktar, 2018: 367).

Taxpayers are subjected to tax according to various tariffs set out in Articles 5 and 6 of the applicable Motor Vehicle Tax Law No. 197. According to these tariff, the tax base is determined based on various factors such as model year, type, engine displacement, maximum total and take-off weight etc.

With a regulation entered into force in 2018, the vehicle value is also added to the specifications to be taken into consideration while determining the tax base. Thus, an ad valorem tariff based on vehicle value in addition to the technical factors such as vehicle's age and displacement has been included to the calculation within the scope of the specific tariff no. (I), and consequently a mixed tariff structure has been introduced (Oktar, 2018: 373). Tariffs no. (I/A), (II) and (IV), however, remain as specific tariffs.

On the contrary to the inheritance and transfer tax among the wealth taxes, motor vehicle tax is a specific wealth tax in terms of scope since it is only limited to motor vehicles, not all the values under the asset (Öz & Kutbay & Buzkıran, 2014: 11). Taxation criterion should be the financial value of this wealth as the subject matter of motor vehicle tax (MVT) is the wealth owned. Collecting same rate of taxes from the taxpayers, who have the same power, within the scope of financial power principle will have a positive impact on income distribution, and will be more appropriate in terms of tax equity. Considering the practice in our country, income distribution might have a detrimental impact as the taxation is based on the qualities of the vehicle that is subject to tax, not on the financial power principle (Sugözü vd., 2014: 116).

2.1. Effects of New Regulations in Motor Vehicle Tax

The concept "vehicle value", which has entered into legislation with Article 22 of the "Law Amending Certain Tax Laws and Certain Other Laws" No. 7061, which entered into force on 28/11/2017, and the consequent change in tariff no. (I) have brought along some criticisms. Of course, while providing a solution to various criticisms in the literature, continuance of the old tariff type for the vehicles registered before 31/12/2017 within the scope of provisional Article 8 has not been sufficient to eliminate all the criticisms.

As an example for the tariff no. (I) in terms of the passenger cars first registered in 2019 in our country;

Table 1. Tax, CO_2 and Vehicle Insurance Fees According to the Specifications of Some Vehicles - 2019

Brand	Model	Engine Capacity	Year	MVT (TL) 2019	Insurance Value (TL)	Vehicle Value (TL)	Type of Fuel	CO_2 Emission (gr/km)
TOYOTA	C-HR 1.2 TURBO DIAMOND MULTIDRIVE S	1200	2019	1.033	149.350	More than 81.100	Gasoline	134
TOYOTA	C-HR 1.8 HYBRID DIAMOND PREMIUM E-CVT	1800	2019	5.003	199.750	Not more than 115.900	Gasoline & Hybrid	86
AUDI	A3 SPORTBACK 1.0 TURBO DYNAMIC STRONIC	1000	2019	1033	245.261 (2018)	More than 81.100	Gasoline	106
AUDI	A3 SPORTBACK 1.6 TDI DYNAMIC STRONIC	1600	2019	1799	282.407 (2018)	More than 81.100	Diesel	105
AUDI	A5 COUPE 2.0 TFSI QUATTRO DYNAMIC STRAONIC	2000	2019	5003	613.989 (2018)	More than 115.900	Gasoline	135
BMW	İ3 (170) (125 KW)	-	2019	1.876	342.700 (2018)	More than 144.800	Electric	0

Source: We prepared the table based on the data collected from the official websites of brands, as well as from https://www.tsb.org.tr/kasko-deger-listesi.aspx?pageID=631.

As it can be seen in the table above, the vehicle value, which is taken into account for the calculation of tax base with the new regulation, appears as a factor that might be affected by various types of discounts such as “year-end”, “launch” or “employee discount”. As this situation is on the contrary to the principles of equality and justice, and as the wording of the law (Article 2/20) is not clear, and unless an explanatory source regarding this definition is published, it is likely that this situation would cause various confusions for the taxpayers and sales representatives. In this context, it would be possible to prevent the possible confusions by preferring the objective vehicle insurance value rather than the subjective vehicle value, thus to prevent changing the tax base through various discounts at the dealers’ discretion.

As an example through a vehicle registered in 2017 within the scope of the tariff no. (I/A); BMW 5.20i is produced in Germany with a minimum engine displacement of 2000cc, while the same vehicle is available with 1600cc in Turkey. Thus, a regulation is required for offering the high-income group taxpayers an advantage to pay less tax, and allowing the manufacturers to make

arrangements in their production lines. And this allows deducting an annual amount of 1.523 TL from the tax base in favor of the high-income taxpayers.

In addition to these, as 25% tax payment advantage, which is granted only for the vehicles with electric motor within the scope of the additional paragraph of Article 5, does not cover hybrid vehicles, this also causes unfairness for the taxpayers. Hybrid vehicles, which cause a less negative externality considering their CO_2 emissions in terms of environmental protection as a constitutional liability, cannot benefit from any MVT advantage. Indeed, although they enjoy various tax cuts such as excise duty, this does not change the fact that the relevant situation does not give priority to the environmental purpose as the financial purpose of these indirect taxes remain at the forefront. For example, as seen in Table 1, a person who wants to buy a Toyota C-HR will have to pay approximately 5 times more tax than the gasoline model with the same specifications just because the vehicle value is higher when one owns a car that pollutes the environment less for various reasons. The fact that the emissions values are not taken into account in our country, with the highest number of criticisms in the literature, is becoming the main source of said injustices. As emphasized before, while there is a transition towards environment friendly MVT concept in the entire world, including the EU, the tariff in our country has to comply with the progressing tax legislation. In addition to this, there are a very few models meeting the conditions providing advantage to the electric motor vehicles. It is, however, clear that the relevant article will become more operational in terms of environmental protection when the number of electric motor vehicles increases in the future.

2.2. Relationship of Motor Vehicle Tax and Environmental Protection Duty

In contrast to other wealth taxes, a tax imposed on motor vehicles also includes a negative externality such as environmental pollution. It should be acknowledged that it is one of the duties of the state to determine a tax policy that minimizes the effects of externality. Article 56 of the Constitution says: *It is the duty of the state and the citizens to improve the environment, protect the environmental health, and prevent environmental pollution."* In this context, not taking the CO_2 emission of the vehicles into account while determining the tax base is on the contrary to the environmental protection duty.

As a solution to this negative externality, the tax imposed on vehicles causing higher environmental pollution in terms of CO_2 emissions is higher; on the contrary, the tax imposed on older vehicles according to the practices in Turkey is lower, and this causes a negative impact on the matter. The technology used in the production of older vehicles pollute the environment more, but they still pay less tax. Of course, it would cause a negative impact in terms of income distribution in tax when the tax base is solely determined based on emission; as the older vehicles (excluding the antique vehicles) belong to lower income groups due to their sales prices, it would cause further injustice in income distribution if harmful gas emission will be solely effective in tax base. In this context, there is a need for regulations where both the financial power principle and the environmental pollution are taken into account together.

3. Motor Vehicle Tax in the European Union Within the Scope of Various Suggestions

There is a more environmental trend in the taxation of motor vehicles in several EU member countries where the tax base is determined according to various factors such as vehicle age, weight, engine displacement etc., as well as CO_2 emissions. For example, in Germany, registration date is an important factor as in the new regulation in our country. In this context, there is a dual distinction for the vehicles registered after July 1, 2009. CO_2 emissions are taken as the basis for annual circulation tax, while € 2 (gasoline) in 100cc and € 9.50 (diesel) in 100cc distinction is taken into account for the basic tax. In addition to this, vehicles with an emission of less than 95 g/km are excluded from the tax imposed on CO_2 (European Automobile Manufacturers Association, 2018). In the UK, the annual tax for automobiles registered after March 2001 is similarly based on CO_2 emissions. For standard automobiles, the amount varies from £ 0 (up to 100 g/km) to £ 535 (above 255 g/km). Additionally, an additional tax is imposed on the vehicles which have their first registration since April 1, 2010. Rates range from £ 10 (1-50 g/km) to £ 2,000 (more than 255 g/km). The tax liability of corporate vehicles is also determined according to the CO_2 emission values (g/km) and the type of fuel (Wappelhorst et al., 2018:38). In Finland, similarly, CO_2 emissions are taken into account and rates range from 3.3% to 50%. Furthermore, within the scope of various rules between 2016 and 2019, discounts have been applied for vehicles with CO_2 emissions of 141 g/km or less (ACEA, 2018: 85).

As it is understood from the general practices of the EU, however, there is no common set of rules for all member countries, but the rules are generally related to CO_2 emissions and weight. (Weight is important for the damage to be caused by the vehicles to the road). In Germany, Austria, Belgium, France, Slovenia and Spain, taxation is made by taking the amount of carbon dioxide per kilometer into account. In Belgium, for example, not only the emissions, but also the engine displacement and age are also taken into account as in our country. Likewise, carbon dioxide emissions as well as sales prices are effective in taxation in Greece (ACEA, 2018: 109). In Denmark, Finland, Ireland, Luxembourg, Malta, Portugal and the Netherlands, there is a combined taxation covering annual circulation in addition to registration (Rubik & Mityorn, 2011). Although taking the vehicle value into account for the vehicles registered after 2018 has provided a solution to several criticisms in Turkey, it is unfortunately ignored that the motor vehicles pollute the environment more as they get older as they cannot keep up with the new technological developments, and nothing is reflected yet in the tariff schedules related to this (Yalçın, 2013: 142).

Considering the share of MVT revenues within the total wealth taxes, we see that it has a higher share in total revenues compared to the other wealth taxes. This result shows that it has an important place in providing justice in the income distribution and that the size of share is capable of meeting the expected result when applied together with effective regulation in line with various financial, social and environmental purposes.

In the literature, as there is no direct tax imposed on emission in Turkey, there are opinions advocating the necessity to consider environmental externality for MVT (Jamali, 2007: 302). In the European Union, MVT can be considered as a type of road and environmental tax, and in addition to the fuel consumption and engine displacement, the CO_2 emission is also taken into

consideration in determining the tax base (Sugözü vd., 2014:116). As it can be seen here, EU endeavors to provide both direct and indirect impact with various taxes to protect the environment. And this shows that MVT's purpose to protect the environment is in the forefront (Özdemir, 2009: 16). Although motor vehicle tax is considered as an environmental tax in several EU countries, it is listed among the wealth taxes in the Turkish tax system (Ömür & Gerçek, 2017: 209), and there is no assessment criterion regarding the amount of emission in the MVT regulations.

4. Conclusion

Pursuant to the Law No. 7061, a tariff further taking financial power principle into consideration has been introduced with the amendment made in the Motor Vehicle Tax Law No. 197, but it is required to draw the lines of the concept "vehicle value" well and to develop control mechanisms preventing the reduction in tax base with the dealers' discretion. Additionally, as the former tariff is not repealed completely and is transferred to the provisional article 8 as the tariff no. (I/A) and the current practice still continues for the vehicles registered on 31/12/2017 and before, this situation prevents solving many of the criticisms available in the literature.

Policies to prevent the environmental pollution, which are expected to have a greater impact on the legislations of all countries as a result of globalization, should also be taken into account in determining the tax base for MVT. Today, the share of environmental taxes is very limited in the total tax revenues globally, and they are generally collected as indirect taxes where the financial purpose is in the forefront. The importance of environmental taxes, however, has increased during the recent years. Particularly the concrete steps taken in developed countries prove this. One of the most concrete steps taken related to the environmental taxes is the effort to control negative externality in the taxation of motor vehicles in favor of environmental protection. Studies in the literature show that the CO_2 emissions of the vehicles play a role in global warming. Therefore, while regulating the tariff for motor vehicle tax, it is important to constitute the legislation with a more environmentalist understanding.

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THE THIRD WAY OF GOVERNING THE COMMON POOL RESOURCES EXCEPT PRIVITIZATION AND EXPROPRIATION: ALANYA FISHERS THAT INSPIRED THE NOBEL PRIZE

Sedef OLUKLULU[1]

Abstract

Common pool resources have two features according to economic classification of goods: it is difficult to exclude the individual from benefiting the good and additional individual reduce the benefit of the other individuals. Indıviduals that are using the same scarce reasource can realize maximization of their own benefit by maximazing their interest in the present time. The motivation to maximaze the individual interest and difficulty of excluding the individuals from using the good, named tragedy of commons, cause detoriation and not able to transfer to the next genaration. In the assumption of full information, prisoner's dilemma means rational strategies can lead to irrational consequences if there are common pool resources. Thus, the fundemantals of social scineces, political philosophy and ethics are also related to this. One of the policy advice is to exproprate the natural resources like grazing lands, forests and fisheries so that central goverment can control and regulate. An other policy advice, to avoid the tragedy of commons, is to privatizate the common pool resource and establish the individual property rights. "Public-like" and "private-like" institutions can also be succesful of governing the common pool resources. Local Alanya inshore fishing cooperation is a good example of establishing the efficent rules by the participants as an self governed common pool resource.

Keywords: Common Pool Resources, Tragedy of Commons, Prisoner's Dilemma, New Institutional Economics

JEL Code: Q22, H41

1. Introduction

New Institutional Economics (NIE), refuse the unrealistic assumptions of the neoclassical economy such as full information of the individuals and organizations and NIE accept the assumptions of scarce of the resources and the competition (Stilwell, 2019: 37). The individuals in the community want to maximize their interest by forming organizations. The individuals change the rule of the organizations to realize their requests. Institutional arrangement that determine the rules of the game is about whether they compete against each other or they cooperate (Çetin, 2012: 46).

Common poll resources are systems that the usage of the resource of a person decrease the amount of quantity of others. Although the additional individual that benefiting the common

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good diminish the benefit of the others, it is impossible or overcosting to restrain the individuals from benefiting the goods. The rational individual who knows that it is impossible to exclude from benefiting the common goods prefer free riding or overuse rather than to contribute. If everybody in rational behavior prefer to free riding or overuse, the common benefit or common good can not sustain its existence (Ostrom, 2015: 6).

If we approach with the fundamental assumptions of the neoclassical economy, the tragedy of commons is the inevitable consequence of the common goods. However in the real world the individuals have experienced the rational behaviors can cause to waste the common good or not to generate the common benefits. The importance of this presentation is the assumption of the rational individual has neither helped to explain the real world matters nor solve them. The purpose of the presentation is introducing some other consequences that are not the tragedy of commons if the individuals using the common pool resources could communicate and cooperate with each other. The fishers of Alanya had experience many unfavorable practices while catching the ownerless fishes in the sea. The method and the extent of this presentation is studying the solution of they found by means of communication and trust each other.

2. The Theoretical Fundamentals of The Tragedy of Commons

The Code of Justinian had stated water and the other natural resources as common goods : " the following things are by natural law common to all – the air, running water, the sea and consequently the seashore." (Institutes of Justinian). Aristotle had stated in his book named Politics (B.C. 350) as "what is common to the greatest number has the least care bestowed upon it. Everyone thinks chiefly of his own, hardly at all of the common interest" (Politics, Book II, ch. 3). In Islam the prophet Muhammad's sayings is: "Mankind are common in water, grass and fire." The goods like this had state-owned and right to benefit belonged to the public. In mecelle (Ottomon code of civil law): "Everyone can use the permissible grass, trees and water, nobody can prohibit." Common goods like air, water are also out of the subject of private propriety in India. Tragedy of commons had described by Hardin as deterioration of overused assets because the assets presents common benefit and use cannot be limited and also no responsibility can be given to the users (Hardin, 1968,1244).

2.1. Prisoner's Dilemma

Prisoner's dilemma is a non-cooperative game that every player have full information. (Dawes, 1975). In the non-cooperative games player to player communication is not possibile. The assumption of full information means players know the structure and the consequences of the play. The dominant strategy of prisoner's dilemma is the strategy of self improvement whatever the other player chooses (Ostrom, 2015: 4). In this case prisoners would equilibrate in the third best result. The best result for themselves would not Pareto-optimal. The impossibility of the cooperation of rational individual effects the fundamentals of social science (Campbell, 1985: 3).

2.2. The Logic of Collective Action

The rational individual would fail to behave for common or group interest if there is no special device providing them to act for common interest or the number of individuals in the group is very few (Olson, 1965: 2).

3. Common Features of Theoretical Foundations

There is a free-riding problem in the tragedy of commons, prisoner's dilemma and the logic of collective action. If one person cannot be excluded from the benefit of the other, the others are motivated not to contribute to the collective effort, but to benefit from the contribution of others. The assumption of rational preferences in all the three situations hinders collective action, causing commoners to fail (Wall, 2014: 82). Common goods are deteriorated or depleted due to leaving the common good for the sake of maximizing individual benefit or the overuse of common goods with the outgrowth of the population (Ergüder & Uymaz, 2014: 134).

4. Fisherman in Alanya

Institutional durability rules should be amended when necessary, and this is expressed as a feature of permanent institutions (Kenneth, 1989: 132). Ostrom has identified eight common characteristics in the design of durable institutions that include common resources:

Table 1. Characteristics of Durable Institutions in the Use of Common Goods

Feature	Clearly determined boundaries
Feature	Local adaptation of allocation rules of common pool resource
Feature	Beneficiary involvement in the decision-making process
Feature	Effective monitoring
Feature	Existence of sanctions that can be gradually applied to participants who violate Community rules
Feature	Easy and cost-effective access to dispute resolution
Feature	Recognition by the high authorities of community self-management
Feature	Multi-layered nesting firms in the form of organization

Source: Ostrom, 2015: 90.

Approximately 100 local fishermen were in Alanya coastal fishery work on boats of 2 or 3 people using various sizes of nets. Half of the fishermen belonged to the local production cooperative. The 1970s were considered to be the middle ages of Alanya fisheries. The economic life of fisheries in the 1970s is threatened by two factors (Berkes, 1986: 74):

- The over-exploitation of fishery causes hostilities which sometimes turns into violent conflicts,

- Competition between fishermen for better fishing points increases production costs and makes the level of fishes likely to catch uncertain.

In the early 1970s, members of the local cooperative began to try to allocate fishable locations to local fishermen. After 10 years of trial-and-error efforts, the rules used by the coastal fishermen of Alanya are as follows (Berkes, 1986: 73):

- Every September, a list of licensed fishermen in Alanya is prepared regardless of whether they are members of the cooperative or not.

- The fishing areas used by the fishermen in Alanya are generally named and recorded. They are spaced apart so as not to block adjacent fishing nets.

- Allocation of fishing locations is implemented from September to May.

- In September, suitable fishermen determine the location of fishing gear to be allocated to them by lot.

- From September to January, every fisherman moves to the position in the east of them every day, after January fishermen move to the location in the west. This creates equal opportunities for catching shoals that migrate from west to east or vice versa.

- The mayor and the gendarmerie are also present during the lot. Surveillance and control of the system is provided by fishermen.

- If the central government officials tried to make this system, it would take a long time and cost for non-fishery appointed officers to succeed without gaining experience in the field.

5. Conclusion

Under the assumption that individuals are rational and have full information, common goods are confronting with the third best result which is far from the Pareto optimal equilibrium. Common pool resource can be nationalized to prevent this situation. Appointed officials of the central government may not know the features of the common good or at least it will take long time and high cost for them to learn. Another solution to avoid inefficiency allocation of common goods is granting the ownership to a person or an institution. However every country has not only its own statuory law and unenacted law but also common law and traditions. Privatizing the fishes in the sea is not available in the Roman law, Islamic law, Turkish civil code, customs and traditions. The third way except nationalization and privatization is governed by an organization consist of the people who are benefiting the common pool resource. Fishers from Alanya is an example of the third way of which consequence is not a tragedy of commons. If the individuals who are benefiting from the common good, can communicate each other in an effective way, can trust each other, can realise that they share both the common past and the future the consequence would not be a tragedy of commons.

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WASTE TRADE AND EXTERNAL COST OF PLASTIC WASTES

Ezgim YAVUZ[1]

Abstract

With the 1980s, global waste started to have a significant role in trade. One of these waste groups is plastics. Due to reasons such as urbanization, population and development, plastic production and thus plastic waste has increased. Due to external costs such as diseases caused by plastic wastes, environmental pollution and toxic gases, developed countries apply serious sanctions. This situation led the firms, which aim to avoid high costs caused by the sanctions, to export waste to underdeveloped or developing countries where there are no regulations or controls are lower. Decisions taken by countries in waste trade also affect the trade structure. This effect was realized with the ban imposed on China's import of waste and currently Turkey, which already shows increasing trend in foreign trade and a high dependency ratio, has accelerated imports of plastic waste. Recycling rate of Turkey is so low that this situation leads to cost the country both economically and socially.

Keywords: Waste Trade, Plastic, Environment, Health, Externalities.

JEL Code: H23, H41, Q53

1. Introduction

Globalization, urbanization, development and the increase in population have caused waste problems around the world. In general terms plastics, which are not classified as hazardous waste, occupy an important place when waste production is examined. Plastic wastes cause public health get worsened, environmental pollution and climate change during their decay due to various substances they contain. From a human viewpoint, it causes serious diseases such as cancer, skin diseases, obesity; in terms of environmental pollution, it threatens the lives of marine and land animals; it causes climate change due to the toxic gases produced during decay. Plastic will be the type of waste dealt with in the study due to the external costs. In this context, the concept of waste, classification of wastes and waste trade will be examined in terms of plastics Last part of the study deals with the non-pricing costs caused by plastic wastes; the general state of the world and finally the plastic waste trade in Turkey will be discussed. In line with this study, by taking into consideration the damage of plastic waste, aimed to examine the situation in Turkey's plastic waste trade.

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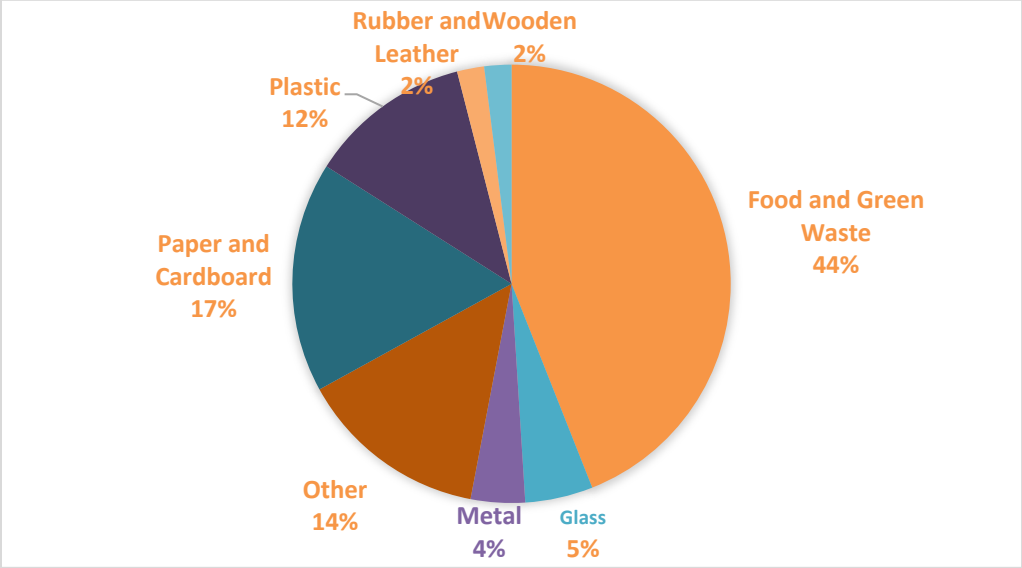
2. Wastes In Production And Trade

There are multiple views on defining the concept of waste. One of the most agreed upon definiton includes substances that became malfunction because of breaking, tearing or deterioration (Read, 1999: 18).

Although wastes are classified according to a number of criteria, there is no classification mechanism based on international standards other than the European Union (EU) and this mechanism is left to the countries' own initiative.

Waste materials emerge in both production and consumption processes, and thus, they find a wide range from industrial activities to housing activities. The waste lists used by countries and international organizations for waste statistics are generally based on the process of production and the material content of waste or a combination of the two. Large waste categories frequently used in waste statistics such as industrial and hazardous wastes combine many different waste materials into categories according to their similarity to collection, treatment and disposal (UNECE; The Netherlands, 2016: 6). During the classification, characteristics such as production, consumption, chemical, physical, hazard size are taken into consideration. Accordingly, the wastes are divided into groups like solid, liquid, gas; harmful, harmless; medical waste. When waste is taken as an urban solid waste, at the international level, the largest waste category is food and green waste with 44%, followed recyclable wastes such as plastic, paper, metal and glass with %38 (See Figure 1).

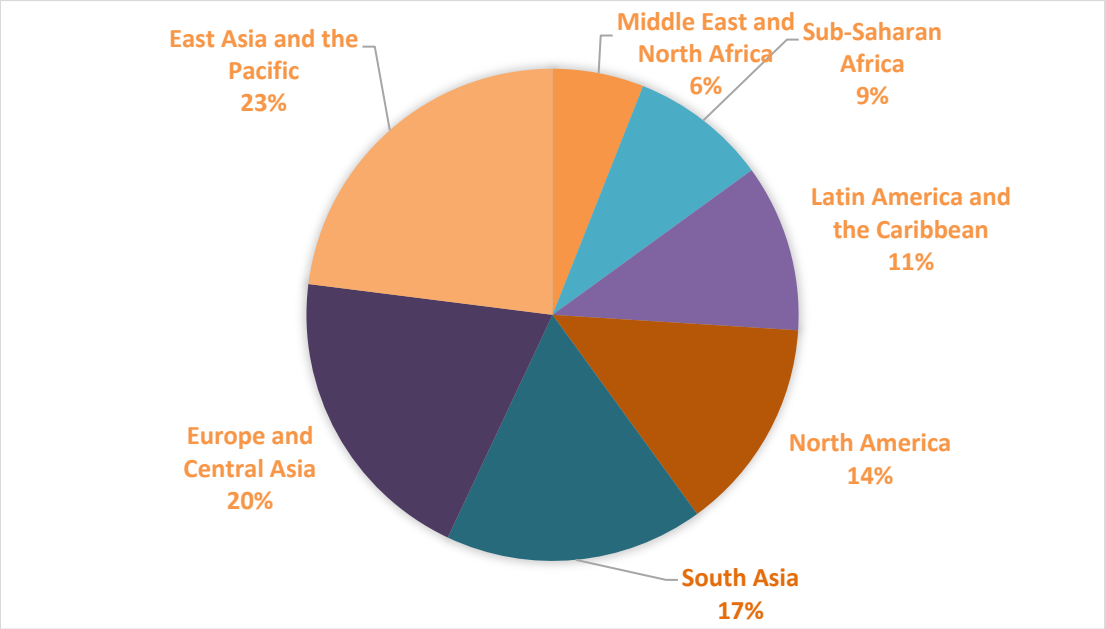
Figure 1. Global Solid Waste Composition (%, 2018)



Source: (Kaza, Yao, Bhada-Tata, & Van Woerden, 2018: 29).

When the distribution of waste produced around the world taken into consideration , it is seen that East Asia and Pacific (23%) and Europe and Central Asia (20%) are the most waste producing regions (See Figure 2).

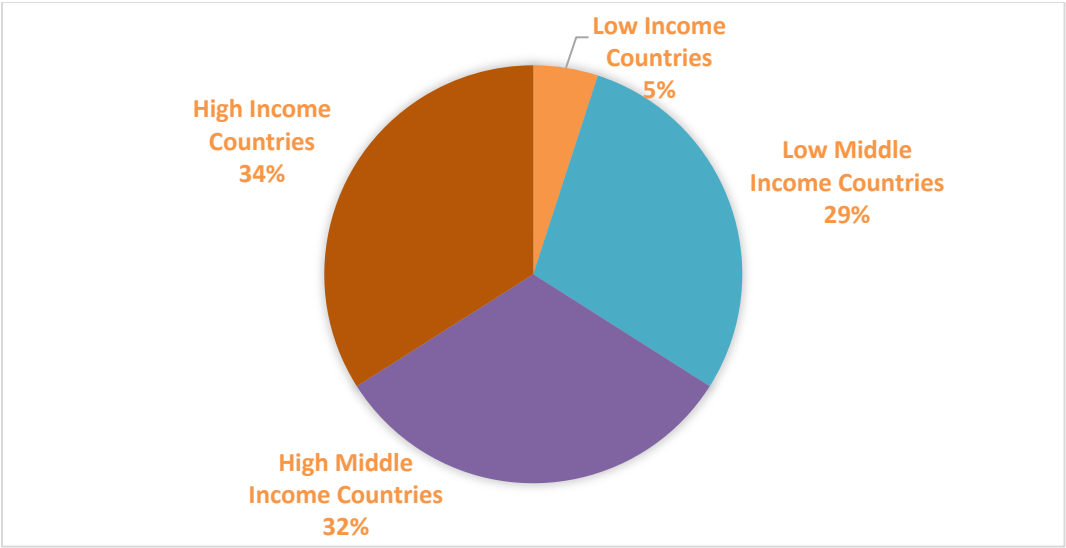
Figure 2. Regional Distribution of Waste Production (%, 2016)



Source: (Kaza, Yao, Bhada-Tata, & Van Woerden, 2018: 19).

When a distinction is made with respect to income level through worldwide, it is seen that high-income countries constitute 34% of total waste and 5% of low-income countries (See Figure 3).

Figure 3. Waste Production by Revenue Level (%, 2016)



Source: (Kaza, Yao, Bhada-Tata, & Van Woerden, 2018: 21).

One of the groups of commodities traded for countries after the 1980s was wastes. There are three main reasons why waste is subject to international trade. The first one is the significant increase in waste generation, particularly appeared with urbanization, economic development and population growth. In 2012, worldwide production of waste was estimated around 1.3 billion tons. According to the latest available data, global waste production in 2016 is predicted to reach 2.01 billion tons (Kaza, Yao, Bhada-Tata, & Van Woerden, 2018: 18).The second case, which causes waste trade, is the idea of "not in my backyard" thought, and in particular, low-income countries do not have strong regulations in waste management (Strohm, 1993: 129).

3. Plastics in Waste Trade

Plastic in the world has wide range of utilization opportunities, therefore it became a commodity that has penetrated into daily life in individual use. While the production level was 2 million metric tons in 1950, this figure was 380 million in 2015 and it left behind other materials (Brooks, Wang, & Jambeck, 2018: 1). If the trend continues in this way, expected amount will be 33 billion tons in 2050 (Rochman & Browne, 2013: 171).

This increase in the production of plastics has brought plastic waste trade with it. In developed countries, sanctions such as taxes or penalties imposed with the aim of preventing negative externalities, such as destruction of environment and worsening public health, lead waste producers to export wastes who do not want to bear the costs of these. A firm that works under strict competition, maximizes its profit when the market price is equal to marginal costs. In this case, the company determines the amount of goods to be produced according to the market price. The company, which takes the market price as data and aims to maximize the profit, creates waste that pollutes the environment while performing production (Akkaya, 2018: 34).In order to eliminate this negative externality, the public administration imposes sanctions on waste like taxes, deterrence penalties, etc. Companies that do not want to bear this type of cost tend to export waste, which they find less costly. In addition to this, there is an increase in plastic wastes due to urbanization and economic development as well as consumption. According to a study conducted in 2018, it is concluded that the goods consumed in high-income countries contain more plastic materials than low-income countries (Kaza et al., 2018: 29).

As far as developing or underdeveloped countries are concerned, importing waste provides a cost advantage in some sectors. Plastic as a petrochemical product can be recycled to a raw material and that motivates developing countries to the plastic waste trade. This situation, which creates a cost advantage in terms of developing countries, brings with it costs that cannot be priced and can cause serious consequences both for the society and the environment.

3.1. External Costs Caused By Plastic Wastes

Whether the plastic wastes should classified as hazardous waste has been discussed in the literature. The common opinion that the plastic waste should classified as hazardous waste is based on the fact that these wastes are both public and local bad goods at the local and global levels. The reasons behind this are the harmful substances that occur during recycling, the

negative effects of plastics on public health, the negative effects on the environment and climate change.

It is seen that the materials such as Polyethylene (PE), Polypropylene (PP) and Polyvinyl Chloride (PVC) which are frequently used in our daily life, have a negative impact on human health in a wide range such as cancer, obesity, respiratory system diseases, diabetes, skin diseases, birth defects (Proshad et al., 2018: 3).

Plastic wastes not only threaten human health, but also harm nature. Studies have shown that more than 260 species, including invertebrates, turtles, fish, seabirds and mammals, have reduced their movement and nutrition due to swallowing or exposure of plastic debris, resulting in a reduction in fertility or death (Thompson et al., 2009: 2155).

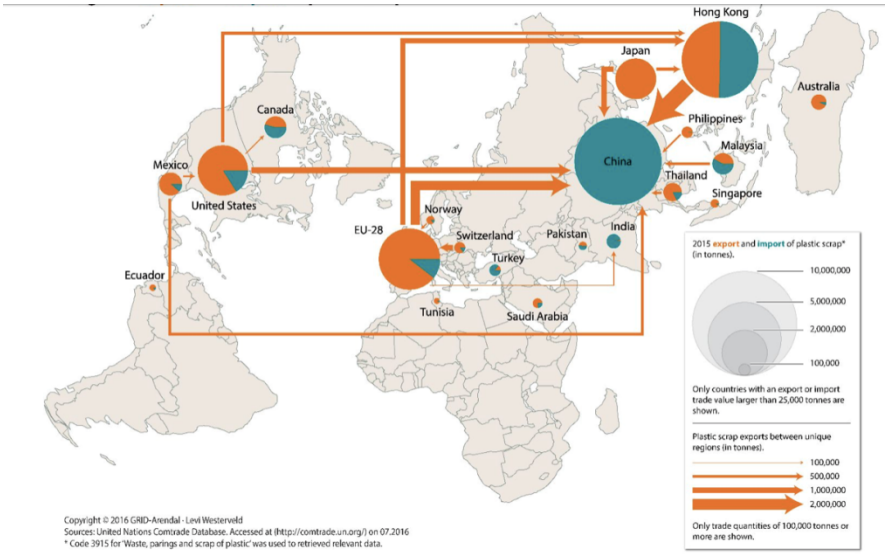
Another important problem caused by plastic wastes is the release of gases that cause climate change during the degradation process. According to a study published in 2018, plastic such as pet bottles produced two greenhouse gases known as methane and ethylene when exposed to sunlight; it was concluded that plastics exposed to air emitted more methane than those exposed to sea water (Royer et al., 2018).

3.2. Plastic Waste Trade in the World and Turkey

The guidelines and rules on cross-border movement and the healthy management of hazardous wastes by regulating waste trade at an international level are set out in the Basel Convention, which was implemented in 1992 by the United Nations. Basel Convention aimed the reduction of hazardous waste generation and promotion of environment-friendly management of hazardous wastes in places where there is no disposal site; limitation of cross-border movements of hazardous wastes, except where it is perceived in accordance with environmentally management principles; a regulation for situations where transboundary movements are permitted (UNEP; SBC, 2011).

Imports and exports of plastic waste have increased rapidly since 1993. The largest exporters of plastics waste in the world in 2017 were the United States (12%), Japan (11%), Hong Kong (9.3%), Germany (8.1%), Belgium-Luxembourg (4.3%). On the other hand China (47%), Hong Kong (11%), the United States (4.2%), Vietnam (3.4%) and the Netherlands (3.2%) were the countries that received the most of the imports.

Figure 4. Import and Export of Plastic in the World (2015)

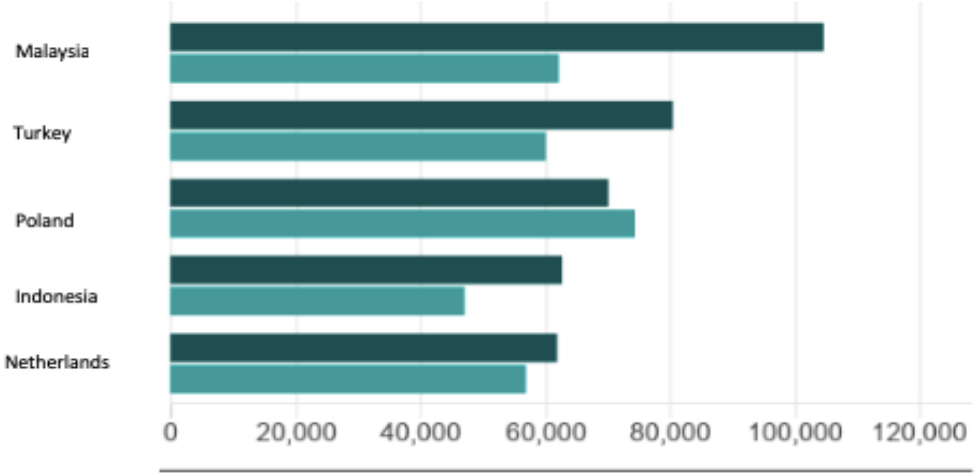


Source: (GRID-Arendal, 2017).

Almost half of the plastic wastes (14.1 million MT) planned to be recycled in 2016 were exported by 123 countries and a significant amount of these (7.35 million MT) were imported by China (Brooks et al., 2018: 2). Figure 5 shows the import and export of plastic waste globally in 2015. As can be seen from the figure, China was dominant in the import of plastic waste until 2018, but with the prohibition, these banned wastes directed to new countries.

As an example, that a significant portion of the pre-plastic waste export ban to China, Britain has increased exports to Malaysia, Turkey, Indonesia and the Netherlands (See. Figure 5).

Figure 5: Change in the Amount of Exports of Plastic Waste in the UK (■ 2017-2018, ■ 2016-2017, Ton)



Source: (Harrabin & Edgington, 2019).

Another country that makes a significant portion of China's plastic waste import was the United States. This situation has changed after the ban and in 2018, the rate of US plastic waste exports to China decreased by 92% and exports to Malaysia increased by 273% (McVeigh, 2018). On the other hand, another remarkable point is that countries that exports plastic waste such as Malaysia and Thailand are going to apply preventive measures in this area like China (Lee, 2019).

An important issue to be addressed at this point is the process of recycling waste. Globally, approximately 37 percent of the waste is disposed in a landfill, 33 percent is discharged into open areas, 19 percent is recycled, and 11 percent is treated with a modern incineration. Adequate waste disposal or treatment using controlled landfill sites or more strictly operated facilities is almost the domain of high and upper-middle-income countries. Low-income countries often use open dumps. In low-income countries, while 93 percent of wastes discharged into open areas; this rate is only 2 percent in high-income countries.

When the plastic good production is examined in Turkey, packaging ranked first, followed in second place with white goods, building and construction as the third (PAGEV, 2017). On the other hand, waste production within the country does not meet the demand for raw materials and thus import is an important option.

Table 3 shows the percentage of external dependency of plastic raw materials in 2010-2016. Polyethylene (PE), Polypropylene (PP) and Polyvinyl Chloride (PVC) raw materials are considered and it is seen that foreign dependency ratio is 87.2% in 2016 (See Table 1).

Table 1. Plastic Raw Material Outward Dependency Ratio (2010-2016, %)

Plastic Raw Material Outward Dependency Ratio (%)							
Type / Year	2010	2011	2012	2013	2014	2015	2016
PE	71,5	75,1	77,0	80,3	80,1	80,5	81,1
PP	91,0	92,3	93,7	94,1	95,6	94,0	94,0
PVC	83,4	85,0	84,5	88,6	89,2	86,5	84,8
Total	81,3	83,7	85,2	87,3	88,1	87,2	87,2

Source: (İnkün & Portakal, 2016)**.**

Trade policies applied on the plastic waste worldwide affects Turkey too. In particular, import bans imposed by China in 2018 resulted in an increase in Turkey's imports of plastic waste. For example, with the China's ban policy, amount of plastic waste Britain export to Turkey rose from 60,000 tons to around 80,000 tons (Harrabin & Edgington, 2019).

When considered in terms of recycling, while European Union average is 39%, Turkey's average recycling is just 1% (European Enviorenment Agency, 2016). On the basis of Turkish Statistical Institute (TUIK) data, the rate of recycling of waste collected by municipality licensed facilities is 9.3% (TUIK, ty.).

External dependence and the low level of recycling rates in raw material production has a negative impact on the national economy and on public health, environmental pollution and climate change. In order to eliminate these negative effects, a sustainable production and recycling concept should be gained. With the legal regulations, the society should be made aware of results of plastic use. In this context, it is important to make cost-benefit analysis of plastic production, use and trade in order to eliminate the negative externalities in the long term.

4. Conclusion

When the global plastic waste trade is analyzed, it is seen that developed countries play an important role in export-oriented, non-developed and developing countries. On the other hand, until 2018, China had a significant share in the import of plastic waste. In this context, Turkey is also observed an increase denominator received from the plastic waste imports. In order to prevent the external costs caused by plastic wastes, policies should be implemented to deter waste imports and support domestic recycling. In this context, incentive subsidies for waste management can be given within the country. In order to increase the level of recycling, the number of recycling facilities should be increased. Imports of plastic waste also negatively affect the internal demand to collect waste, so there should be protective policy which gives attention to employment in waste industry. In this context, supportive measures need to be taken. In order to avoid external costs caused by plastic wastes in the long term, the plastic consumption of individuals should also be reduced. Therefore, efforts should be made to raise the awareness of individuals, the deposit should be applied to support the separation of domestic wastes at home and the use of plastic should be avoided by taxes or additional pricing. In this respect, the pouch fee policy implemented in 2019 should be diversified.

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AN EVALUATION ON SOCIAL STATE UNDERSTANDING AND TURKEY

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Abstract

In the past, the most significant aim of the countries has been developing policies that will ensure economic growth. Today, however, this approach has been replaced by the policies increasing the welfare of society. Social state concept emerged within this process and as a result of the paternalist state perspective that increases the welfare of the society. Within the scope of this perspective, governments have to provide a high standard of living for their citizens, to take measures in advance for future problems and to distribute national income fairly between citizens.

The main motivation behind the study is the necessity of the social state. The study discusses the tasks that any state should undertake in order to maximize the welfare of society and the targets to be achieved in this way. The aim is not developing a new method but analyzing the social state practices of Turkey in comparison with the ones applied in the OECD countries. In this context, the development of the social state and the services that should be presented within the framework under this perspective is discussed in the first section. Next section shows deficiencies in social welfare services in Turkey. The last section describes things to do to overcome the respective deficiencies.

Keywords: Social State, Social Policies, Taxes, Public Spending

Jel Classification: H51, H52, H53, H55

1. Introduction

The concept of social state has passed through many stages in the historical process and has taken its present form. Together with industrialization and increase in national income, the two major world wars and the crisis experienced in the 1930s played a significant role in the spread of this perspective.

The consequences of the Great Depression were contrary to the mainstream economic theory. In addition to this, the problems emerged after the Second World War mustered up support for state intervention and the welfare state practices were on the rise. Providing minimum living standards for life with dignity, eliminating the inequality of opportunity in education and health that have high externality, establishing a social security system that will protect the individual and his family from current and future risks have become the basic duties of the state.

Today these tasks, which have followed an unstable course since then, are accepted by all societies. This study is carried out realizing the significance of the social state and aims to evaluate

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existing social state expenditures of Turkey. In this context, the study compares Turkey and the OECD countries in terms of the funds allocated from the general budget in the framework of the social state.

2. The Concept of The Social State

The social state is a concept that differs from country to country and period to period and is shaped according to the social policy practices of states. In this respect, it is very difficult to reach a common definition of the social welfare state.

Gümüş (2010: 188) defines social state as an understanding supports active intervention of the state to economic and social life through introducing social and economic rights to individuals. The intervention aims to provide minimum living standards for life with dignity, allocate national income fairly and in this way providing social justice.

It is possible to see different perspectives in efforts to define the social state. While some of the efforts focus on the "social" concept, others refer to concept of "welfare" to embody the term (Gümüş, 2010: 179). The common goal in most of the definitions is eliminating the differences between different welfare levels of the society and protecting the individuals who are living in bad social and economic conditions (Özdemir, 2007: 21). However, independent of the political regime and economic system, there is a theoretical phenomenon of a social state in all developed or developing countries.

3. The Targets of the Social State Tries to Reach

3.1. Planned Development and Rise in National Income

Planned development and rise in national income is an objective that states have set for increasing community welfare and implementing social policies (Şimşek, 2012: 24). This objective is significant especially in less developed countries where national welfare cannot reach a certain level. Since practices to ensure fair distribution of income in a place where there is no decent welfare will be meaningless. Thus, the intervention of the social state is also targeting to increase national income and development (Gümüş, 2010: 208). In order to achieve this goal, primarily the production level must be increased. However, this will not be enough. Because of no matter how much the national income increases, if it is not reflected all people, if there is no change in the living conditions of individuals in the lower income groups, there will be no increase in the welfare in real terms (Aktan & Özkıvrak, 2003).

3.2. Providing the Minimum Living Standards for Life with Dignity

Minimum living standards for life with dignity is an extension of the right to life and a compulsory issue for speaking about the social state. In this context, the social state which takes care of the social conditions of individuals and undertakes to provide the minimum living conditions serves

to protect human dignity (Gümüş, 2010: 183). In order to realize this service, the state should use tools such as tax and expenditure and intervene in the market. In this context, the living standard worthy of human dignity is taken as the basic measure of the state intervention. Thus, the social state is obliged to guarantee to all citizens a standard of living worthy of human dignity. The intervention will be carried out until the level of life worthy of human dignity is achieved (Başbuğ, 2010: 85).

3.3. Ensuring Fair Income Distribution

One of the main objectives of the social states is to ensure a fair income distribution. However, it is difficult to believe that this will be achieved spontaneously if it left to the functioning of the market. For this reason, the social state envisages intervention to market in order to eliminate inequities appeared within the natural functioning of the free market economy. Since based on liberal view a fair income distribution is almost impossible for a passive state and this makes an intervention an obligation in order to achieve fairness (Gümüş, 2010: 204).

3.4. Regulation of Employee Rights: Minimum Wage and Social Security

The minimum wage is the wage that will allow the worker and families to live in dignity. In addition to basic needs, the minimum wage must provide the worker and families with the opportunity to share welfare (Bağdadioğlu, 2010: 93). The main purpose of the minimum wage is to increase the welfare of the workers by reflecting the profits which are not reflected in wages normally (Koray, 2000: 252-253). On the other hand, social security services are public services that provide income transfers to individuals whose income has been cut or decreased due to social risks (Tokol & Alper, 2011: 162).

3.5. Eliminate Interregional Unbalances

In order to create a livable urban development, rural areas should not be neglected. Because, the attractive characteristics of the cities together with underdevelopment of economic, social and physical infrastructure of the rural areas increase immigration to cities. This situation leads to unhealthy and unplanned development of cities (Batur, 2011: 89-90).

The disparity between the developed regions, which have become attractive to the factors of production, and underdeveloped regions, in which labor-incentive production and agriculture is the main driving force, is increasing. This is one of the main reasons for the migration from rural to urban. Immigration causes problems like insufficiency in education and health, the need for land and housing, noise, environmental pollution problems and these increases the necessity of public investment. Moreover, this means an extra burden on the public economy (Yıldız, 2013: 19).

3.6. Policies for Housing

Encouraging the right, socially possible and stable residential areas is of great importance in terms of fair distribution of income. There has been an increase in the need for housing due to the rapid rise in population, structural change in agriculture, social and cultural developments and immigration from rural to urban. Accordingly, the housing sector becomes even more important. The relationship between housing supply and housing demand is highly deteriorated due to the deterioration in income distribution. In this context, within the framework of the social market economy, it is obligatory to develop policies and programs for the purpose of providing housing for low and middle-income families and for improvement of low-standard living environments emerged in the process of urbanization (Öztürk & Öztürk, 2010: 177).

4. Evaluation of Social State Expenditures of Turkey

4.1. Providing Fair Income Allocation

According to The Better Life Index data calculated by the OECD for 2017, the net disposable income of households in OECD countries is $20.563 while it is $17.067 for Turkey. Turkey has ranked 34 within the 38 member states of OECD. In terms of the data on hours worked, Turkey is in the last place. Again, based on the UNDP Human Development Index 2018, with 0.791 index value, Turkey has placed 64th within 188 countries.

As the data shows, despite the increase in economic growth in Turkey after 2001, the necessary improvement in income inequality and poverty has not been achieved. The continuity of these problems shows that the social policies implemented by the state are far from being effective. The tax system implemented in the country increases income inequality.

4.2. Education Services

Education expenditures constitute one of the largest shares in social spending of Turkey. Moreover, these are the most affecting variables for the development of social expenditures. There is a perpetual increase in the share of education expenditures within 12 years period between 2006-2017. On the other hand, by looking increase in the number of universities and students the increase in the relevant period is not a real one but a specious rise in terms of educational expenditures per capita. Besides, considering the performance of our country in international examinations, despite the absolute increase in education expenditures there has been some structural problems in terms of quality.

4.3. Health Services

The share allocated for hospitals is high within the health expenditures provided by central government. Health expenditures increased in absolute terms in the period of 2006- 2017. The

share in the budget was 5,2% in 2006 and decreased to 4,3% in 2012 and raised again to 5,2% in 2017.

In developed countries, the share of the budget allocated to health expenditures is 10%. Thus, in Turkey 5,2% allocated from central government budget is low.

4.4. Environmental Protection Services

The main reason for evaluating the environmental issue within the framework of the social state is the necessity of inclusion of negative externalities arising from environmental problems into the price mechanism. The state, which aims to maximize the welfare of the society by preventing the excessive consumption of resources and ensuring the efficiency in the resource distribution, charge the worth harm from the ones who cause this.

Turkish governments have resorted to some taxes and subsidies in order to protect the environment. While some of these include direct regulation such as environmental cleaning tax and plastic bag mortar; taxes on the motor vehicle and excise duty on some products also regulate environmental problems indirectly. In Turkey, environmental taxes are subject to four divisions within financial management statistics: energy, transportation, resource and pollution taxes.

The environmental expenditures of the central government increased between 2006-2017 both in absolute and relative terms. A significant point in the data is the tendency of a tradeoff between the services allocated to pollution reduction and conservation services of the natural environment and biodiversity over time. Accordingly, while the conservation of natural environment and biodiversity has the largest share within the total expenditures in 2006, this superiority shifted to the reduction of pollution in 2017. This means there is a policy change of central government from protective environmental policies to preventive environmental policies.

However, when environmental taxes and environmental expenditures are compared, it is seen that environmental taxes are collected to provide income to the budget rather than to protect the environment. In fact, income from environmental taxes was TL 88.7 billion in 2016. The amount that the central government and local administrations make for environmental protection expenditures is TL 27.6 billion. Although the principal of “adem-i tahsis” is adopted in Turkish Budget System, this is not an obstacle to increasing environmental protection appropriations.

4.5. Social Security and Social Welfare Services

Turkey experiences an increase in social protection and social security expenditures between 2000- 2017 both in absolute and relative terms. Accordingly, the share of the relevant expenditures in the budget increased from 28% in 2000 to 35% in 2017. In the same period, there was an almost 29-fold increase in absolute terms.

The salaries of pensioners and elderly are the highest share within the social protection expenditures. The pensions that were paid to young people in the past due to early retirement law have a great role in this increase. In the last 18 years that covers the period 2000-2017, there have been significant increases in the expenditures on the disadvantaged sections of the society. In this period, disability expenditure increased approximately 37 times, expenditures allocated for widows/ orphans increased by 42 times, expenditures on family/child increased 42 times and unemployment payments increased by 619 times.

4.6. Housing and Welfare Ownership Expenditures

The market alone remains insufficient to meet low- income individuals' housing demands. In other words, if the state does not intervene in the housing sector, the construction sector makes production in accordance with the demands of individuals with high-level income. In this case, the state puts some rules and standards on the market in order to ensure that low-income families own a home. These measures include low-interest and long-term financing, or state-owned enterprises entering the market and producing housing.

2017 data show that with 1,34% the share of housing and community welfare services in the central government budget was very low. The share of local administrations was 2,4%.

4.7. Recreation, Culture and Religious Services

Central government allocates 2,04% of the budget to recreation, culture and religious services. Over the years, the religious services performed by the central government got more share than the other services. This shows that the central government gives more importance to people's beliefs and has a conservative structure. However, despite the contribution of the mental and physical development of human capital to the economic growth and development of the country, it is seen the budget for these services is not enough.

5. The Expenditures of OECD Countries on Social State

The country with the highest rate of social expenditures to GDP is France with 32%. Austria, Belgium, Denmark, Finland, Germany, Italy, and Sweden allocate more than a quarter of GDP to social state expenditures. Unlike these countries, in Chile, Ireland, Korea, Mexico, and Turkey public social spending constitute less than 15% of GDP. OECD countries' average social state expenditures reached up to 21% with the crisis experienced in 2008. The social state expenditures started to decrease from this date on. It reached to 20% just in 2016.

The countries with the highest decline in social state spending since 2009 were Ireland and Hungary. In Finland, Norway and South Korea, social government expenditures increased by 2% compared to GDP. This increase was mainly related to the increase in pensions in Finland and Norway, while it is due to spending on health expenditures and primary education in South Korea (OECD, 2019: 1).

In OECD countries, pension payments and health expenditures constitute the highest share of social state expenditures. According to this, while 8% of social state expenditures are allocated to pension payments, while this share is 5.7% for health services. In addition, for working-age individuals, the ratio of income support to GDP is 4% in OECD countries. 0.7% of this is spent on unemployment benefits, 1.7% on incapacity benefit, 1.2% on family money payments and 0.4% on other social support. The ratio of family benefits to GDP is 2.1%. 0.8% of this includes family benefits, 0.7% childhood education and care, 0.4% maternity, income support during fatherhood and parental leave, and 0.2% home help and other benefits. Child benefit is generally paid to all children (OECD, 2019: 2).

6. Conclusion

Governments must provide the minimum living standards for life with dignity within for all citizens within the framework of social state. In this context, the state aims a fair income distribution and ensure various social policies for everyone to benefit from education, health, and social security services.

In terms of Turkey, a significant amount of social welfare spending is allocated from the government budget. However, when compared to the resources of the developed countries, the country is faced with some budget constraints. Among others, the most important constraint is that the resources should be used for both economic growth and social state at the same time.

“Policies to provide fair income distribution” is one of the services Turkey provide within the framework of social state perspective and it is possible to say that Turkey succeeds in this issue. Gini Coefficient data used in the evaluation of policies for the improvement recorded in the 2006-2017 period shows that income distribution recovered in Turkey.

However, the per capita income in terms of purchasing power parity is quite low in the country. Increase in per capita income depends on prioritizing economic activity and compromising justice. Therefore, the policies for fair income distribution is overshadowed by the economic growth policies in Turkey. Because the accumulation of capital necessary for growth requires protection of some high-income groups in the country in terms of economy. Unfortunately, this protection results in an increase in income distribution inequality.

The funds allocated to environmental protection expenditures appears to be extremely low in Turkey. Thus, the total income from environmental taxes is TL 88.7 billion for 2016, while the total environmental expenditure is TL 27.6 billion. The difference between income and expenditure is approximately TL 61 billion. It gives the impression that environmental taxes are collected for the purpose of providing income to the budget rather than the purpose of protecting the environment. However, it can be said that, although it is aimed to generate income, such taxes reduce the demand for pollutant products through increasing prices and thus provide efficient use of resources.

Evaluating all of these data, it is difficult to say that the social state understanding is exactly realized in Turkey. The most significant reason is the dilemma the country experienced between efficiency and justice. Which should be prioritized is an important policy choice that should be

decided within the framework of the country's long-term goals. Therefore, the inability to full establishment of fair income distribution is the outcome of the necessity of encouraging the accumulation of capital required for economic growth.

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THE NEED FOR REFORM IN TURKISH TAX SYSTEM: MAIN PROBLEMS AND RECOMMENDATIONS

Adnan GERÇEK[1]

Abstract

Although their form and purpose vary between countries, tax systems are of great importance in terms of developing the country, increasing investments and ensuring efficiency in resource allocation. For this reason, the necessary changes and reforms have been made in the tax system. Until today, several fundamental reforms and amendments have been made to make the Turkish tax system a modern tax system. As a result of these frequent changes, today's tax system has become extremely complex, unfair and unefficiency. In the Turkish tax system, source theory is essential in the definition of income. Therefore the tax base is limited, the number of taxpayers is low, and the informal economy is widespread. As a result of all this, frequent tax amnesties comes to the agenda in Turkey and the tax system is into a "vortex of failure".

To make the Turkish tax system simpler, more comprehensible and effective, the "New Generation Tax System" should be created. The following reforms should be made in this process: the basic tax laws should be rewritten, and the net accretion theory should be accepted to make the tax system simple, understandable and justified. In addition, in order to implement the tax system in an efficient manner, the tax administration and tax audit restructuring should be completed.

Keywords: Tax system, Tax amnesty, Minimum subsistence allowance, Tax reform, Tax administration.

JEL Code: H20, H21, H24.

1. Introduction

Tax reform is defined as the fundamental changes and improvement movements made to achieve the objectives like the simplification of the tax system, efficiency, justice, etc. Basic changes are needed in order for the tax system to keep up with developments in economy and technology. For this reason, changes in tax laws have always been on the agenda. However, many changes in the tax system are not the reform but rather revisions.

Although there are frequent changes in the Turkish tax system, there is no significant improvement in taxation. This is because the problems accumulated in the Turkish tax system have become so that it is not possible to overcome them with minor revisions. Therefore, a radical reform in the Turkish tax system has become inevitable.

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The aim of this study is to identify the main problems that exist in order to reveal the need for reform in the current Turkish tax system and to develop suggestions for their solution. For this, we primarily provide information about basic reforms in Turkey and then we reveal the underlying problems in the Turkish tax system today. Considering that the Turkish tax system has fallen into the vortex, reform proposals have been presented to solve the problems.

2. Fundamental Reforms in Turkish Tax System

Significant changes in taxes are defined as tax reform, while others are considered revision (Jha, 2010: 384). From this perspective, the Turkish tax system has undergone several major tax reforms and many revision processes. After the abolition of tithe in 1925 and the dividend tax replacing with profit tax in 1926, the first fundamental tax reform process in Turkey started. The changes which were the foundations of today's modern Turkish tax system and the second major reform were made in 1950. In 1961, serious revisions were made; significant changes have been made by rewriting the Income Tax Law and Tax Procedure Law (Varcan, 1993: 144).

Following the liberal policies implemented after 1980, an important reform was realized with the inclusion of VAT in our tax system in 1985 and this process continued with the SCT that came into force in 2002. In the period that beginning with the implementation of VAT and continuing with acceptance of SCT is an important step to adapt to the EU harmonization process (Demirli, 2011: 285). Besides, corporate tax law was rewritten to adapt to the global world and became applicable in 2006.

3. Major Problems of Turkish Tax System

3.1. Low Tax Capacity and Tax Effort

A major problem of the Turkish tax system is the low tax capacity and low tax effort. In the context of the registered economic activities, it is seen that the tax effort in our country between the years of 2007-2018 ranged from 0.86 to 1.10. When in Turkey the informal economy is assumed to be 25% of GDP, the tax effort is decreasing and takes place between 0.69 and 0.88.

3.2. Low Tax Base and Number of Taxpayers

One of the main problems of the Turkish tax system is the low tax base and the low number of taxpayers paying tax through the tax return. From 1990 until today, Turkey's population increased by about 52%. There was almost no increase in the number of income taxpayers. This is a clear indication that the tax base in our country is not expanding. The ratio of the active income taxpayers to a total number of populations in Turkey is only 2.3% (OECD, 2017: 77).

3.3. Complexity of Tax System

Although many changes have been made under the name of reform in the Turkish tax system; instead of providing justice, simplicity, generality, stability and efficiency, it has further complicated the system. Due to exemption, exception, and discounts in Turkey, approximately 24% of total tax revenues are waived (Hazine ve Maliye Bakanlığı, 2018: 285). The legal complexity of the Turkish tax system is low, but its operational complexity is higher than in the developed countries (Budak & James, 2018). Turkey has the world's most complex tax and accounting system (TMF Group, 2017).

3.4. High Share of Indirect Taxes

In the EU and OECD countries, 67% of tax revenues are collected from direct taxes and 33% is collected from indirect taxes (OECD, 2018: 9-11). In Turkey, the opposite result of the implementation of tax laws, they come across a similar tax structure. For example, 32% of tax revenues collected is expected to be collected in the 2019 budget from direct taxes, and 68% is expected to be collected from indirect taxes (BÜMKO, 2019: 68). The main reason for the high share of indirect taxes in Turkey is not the high rates of indirect tax, but that the direct tax revenues are not sufficient.

3.5. Removing Frequent Tax Amnesty Laws

Frequent use of the tax amnesty in Turkey, creating a negative impact on tax compliance and encourage tax evasion attempts of the taxpayers (Andreoni, 1991: 144). A total of 37 tax amnesty laws have been enacted under different names in our country. Tax annuities, which are made on average every two-three years, place taxpayers in the expectation of a new amnesty law. Thus, our country is almost caught in the vortex of tax amnesty and as a result, the tax system has become almost helpless, inconclusive and ineffective.

3.6. Adoption of Taxation by Resource Theory

It can be said that the taxation based on the source theory is the basis of many problems in the field of taxation in Turkey. Source theory narrows the taxation area and tax base, decreases tax revenues, ignores the principle of justice in tax, leads to the spread of informal economy and cannot tax new incomes of economic life (Arıkan & İnneci, 2016: 14).

3.7. Lack of Sufficient Tax Security Institutions in the Tax System

In previous periods in our country; tax security institutions such as precedent and wage, wealth declaration, average profit rate, minimum gross revenue, standard of living standard, tax return to wage earners have been applied (Şanver & Oktar, 2013: 3). However, these tax security institutions were later abolished and there is no tax security institution in the income tax (except for the equivalent rental price).

3.8. Implementation of Principle of Administration instead of the Principle of Legality in Taxation

The principle of legality is valid in taxation. Therefore, according to the article 73/4. of the Constitution, the President may make arrangements regarding the exemption, exceptions, discounts, and rates within the limits determined by the law. The frequent use of this power leads to the spread of the principle of administration in taxation (Gerçek & Bakar, 2017: 23). In addition, regulations, general communiqués, circulars and even specialties in our country and new regulations or rules that are not in the laws regarding taxation are undermining the principle of certainty in taxation.

3.9. Unfinished the Restructuring of Tax Administration

In 2005, the revenue administration was restructured with the creation of the Revenue Administration. However, a holistic central-regional-local organization has not been fully achieved (Gerçek, 2009: 28). On the other hand, although Tax Audit Board was established in 2011, the distinction between tax inspectors continued. In addition, the tax audit, which is the most important function of modern tax administrations, has been taken from the revenue administration with the establishment of the Tax Audit Board (Gerçek, 2011: 35).

4. Reform Recommendations Regarding Turkish Tax System

4.1. Create a Modern and Efficient Tax System that Gives Value to Taxpayers

A basic tax reform is needed to ensure that the Turkish tax system operates in a modern and effective manner. A “New Generation Tax System” should be established and a “Taxation Mobilization” should be announced to create a modern and effective tax system that values the taxpayer. In this process, the basic tax laws should be rewritten to cover the principles, institutions, and practices that the modern tax systems should bear.

4.2. Tax System should be Made Simple, Understandable and Applicable

In order to make the tax system simple, understandable and feasible, the tax laws must comply with the principles of modern taxation and respect taxpayer rights. In addition, the tax system should include tax security measures to prevent the informal economy. In addition, the implementation of some non-contemporary and inefficiency taxes should be terminated or included in other taxes.

4.3. The Net Accretion Theory should be accepted for Expanding the Tax Base

The most important step in the expansion of the tax base is to accept the net accretion theory instead of the source theory in the definition of income. The net increase theory, which takes

into account the power of payment in taxation, extends the concept of income broadly, accepts all kinds of income and any value increase as income and thus provides better tax justice (Arıkan & İnneci, 2016: 15).

4.4. Pay Attention to Unitary Taxation in Income Tax

In order to establish an effective tax system in Turkey, the unitary tax system should be focused on. Withholding taxation should be considered as a preliminary taxation of unitary taxation, not as final taxation, and thus the principle of taxation according to financial power should be implemented. Therefore, it should be ensured that agricultural earnings, all wages, capital goods and capital market instruments are taxed through an annual declaration.

4.5. The Minimum Subsistence Allowance should be considered in Income Tax

To ensure fairness in taxation a minimum subsistence allowance should be applied according to the person's civil and family situation in the income tax. While the minimum living allowance amount is determined, minimum living allowances applied in other countries and minimum wage applied in these countries, national income per capita etc. factors may also be considered.

4.6. Powerful Auto Control Mechanism should be Established in Income Tax

In order to prevent tax losses and leakages in Turkey, instead of determining the method of earnings on the basis of activity, as in many developed countries, the method of determination of earnings on the basis of wealth should be started. With this method, determination of earnings will be simplified and control will be easier. However, corruption, informality, abuse and nepotism will be prevented.

4.7. The Number of Exemptions and Exceptions in Tax Laws should be reduced

In order to create the perception that the Turkish tax system is fair, the number of exemptions and exceptions in the tax law should be reduced, so that the tax system should be made simple and understandable and the tax base should be expanded. With the implementation of minimum living allowance, exemptions and exceptions provisions which should be protected for special purposes should be written under the section of the relevant income element and the laws should be made more systematic and understandable.

4.8. Taxation of Rant Revenues in Cities should be Ensured

In our country, the increase in the value of real estates obtained from evaluated within the concept of the urban rant, taxation of real estates will be a very fair regulation. For this reason, it should be ensured that the appreciation gains in real estates within ten years have been declared and taxed after the de-inflation.

4.9. Revision of Revenue Administration and Tax Audit should be Completed

In order to complete the restructuring of the remaining income administration in our country, the central-regional-tax office model should be started as soon as possible. On the other hand, in order to carry out the tax audit, which is the most important function of the revenue administration, the tax audit units should be organized within the Revenue Administration. Thus, it should be ensured that all functions of taxation are carried out under a single roof in accordance with the understanding that "it is not possible to separate the meat from the bone".

5. Conclusion

Turkish tax system has reached today's structure as a result of many changes. As a result of all the reforms and revisions made to adapt to the conditions of the day, our tax system faces many problems. Some of these problems can be stated as follows: the narrow tax base and low number of taxpayers, complexity of tax system, high share of indirect taxes, frequent tax amnesty laws, the adoption of taxation according to the source theory, the lack of tax security institutions in the tax system, implementation of principle of administration instead of the principle of legality in taxation, and unfinished the restructuring of tax administration.

In order to ensure the modern and efficient functioning of the Turkish tax system, there is a need for a basic tax reform rather than minor changes. With this tax reform, it should create a modern and effective tax system that values the taxpayers. For this, the perspective on taxation should be changed and the basic tax laws should be rewritten with the understanding of the "New Generation Tax System". In this process, the tax system should be made simple, understandable and feasible, the net accretion theory should be accepted instead of the source theory, and the number of exemptions and exceptions in tax laws should be reduced. In addition, income tax should be focused on unitary taxation, a minimum subsistence reduction should be implemented and a strong auto control mechanism should be established. In order to implemented tax system effectively and efficiently, the tax administration and tax audit restructuring in our country should be completed.

To make all these changes in the tax system, a strong political will and a "Taxation Mobilization" in Turkey should be declared. However, it is inevitable to make this basic reform so that the tax system gets rid of the vortex it has fallen into and can be implemented in a modern, effective and efficient manner.

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THE ANALYSIS OF TAX PERFORMANCE IN TURKEY

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Abstract

Tax policies of Turkey have been one of the most concerning *economic issues during the course of* the *European Union accession process*. The tax revenues have been an important economic factor affecting tax policies and economic growth in Turkey. Tax performance has been an economic indicator which shows the effects of tax collection on economic development and income redistribution. Tax performance as an important economic indicator for the effects of tax policy shows how to make tax implementation in regard to the effiency and equity principles of taxation in any country. In this study, it will be scrutinized Turkish tax performance compared to EU-15 countries. The aim of this study is to analyze Turkey's tax policy . The tax convergence of Turkey with EU -15 countries will be examined by exploring the stationary tax differentials series using the data sets from Eurostat and Turkish Revenue Administration. In this study , tax revenues-to-GDP ratios are used for tax convergence showing the tax performance in Turkey. and a unit root in the nonlinear framework will be tested to examine the Turkish tax performance compared to EU-15 countries.

Keywords: Tax performance, Tax convergence, Turkey, EU, EU-15 countries.

JEL Classifications: H20, H21, C01

1. Introduction

In this study, Turkey's tax performance will be analyzed in comparison with EU countries. Although there are many different reasons to choose Turkey, two important reasons make Turkey an attractive example for this study. First of all, Turkey as a candidate country for European Union membership has been one of the most discussed countries due to her tax policies in the EU Reports especially during accession process. Secondly, Turkish tax policy has been discussed as general government policy not only in terms of the place of tax revenues in budget revenues but also in regard to the state traditions of tax collection and taxation authority in Turkey. Tax policies should be analyzed as an important economic indicator which shows the state power from the period of Ottoman Empire to the Republic of Turkey. According to the public finance theory, tax policies aim the optimal resource allocation, equitable distribution of income and, economic stability. For Turkey like other developing countries, tax policy for sustainability of the country is important as well as for having sufficient fiscal power to avoid

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being among debtor countries. The starting point of this study is to provide what we need for the econometric analysis on tax policy developments in Turkey.

In this study, it is aimed to investigate the tax convergence of Turkey with EU-15 countries. Therefore, in order to make more suitable tax performance analysis, the data series of total tax burdens,that is the total tax revenues/GDP ratios in Turkey and the EU-15 countries are used.

2. Approaches in the Tax Performance Analysis

State power, non tax revenues and behaviours of taxpayers have effect on the tax performance in any country. Tax performance has been one of the most important economic indicators which shows the economic power of a country. The countries with low per capita income can not, as a rule, meet the administrative and institutional requirements for a modern tax system. The rising revenue requirements for public expenditures with economic development have a positive impact on tax collection. In the public finance literature, it is argued that there is a positive relationship between tax ratios and per capita GDPs. An empirical study using the data sets of 177 countries (Haldenwang & Ivanyna, 2011),shows that the ratio of tax to GDP per capita is statistically signicifant for tax performance. In statistical terms, an increase of 10% in GDP per capita increases tax revenues by % 0.34.

In the traditional regression approach and behavioral economics approach, tax performance is measured by comparing actual tax revenues with potential tax revenues. The potential tax revenue is generated from the predicted values based on regression analysis. This method takes into consideration structural economic features in any country (Gaalya, 2017: 232). The tax effort as a ratio of actual tax revenues to the potential tax revenues shows the level of achievement in regard to the tax capacity in a country. A tax effort ratio of more than 1.0 shows that it has a preference for level of taxation above the average. IMF calculations of tax effort show that Brazil had the highest tax effort with the ratio of 1.806 followed by Tunisia, Egypt, Ivory Coast, and Sudan in the period of 1969-1971(Bird,1976:254). A realistic public finance approach for underdeveloped and developing countries must take into account the economic surplus generated in the economy (Bird, 1976: 259). Bird argued that the mining sector such as other natural resources in underdeveloped countries had a large surplus which is very difficult to tax.

Tax capacity has economic and the fiscal upper limits . The economic upper limit of tax capacity is the GDP of the country. A tax system in a country having the pareto optimality should have economic efficiency, administrative simplicity, political responsibility and equity (Carvalho, 2017: 11). Social factors as well as economic factors affect the tax capacity. Behaviours of taxpayers and administrative simplicity have been important social factors which have affected tax capacities (Susam, 2015: 291). These factors are also factors increasing the cost of tax collection either implicitly or explicitly.

3. Empirical Analysis Method and Implementation

3.1. Econometric Methodology

It is well known that traditional unit root tests such as Augmented Dickey-Fuller (ADF) have weakness in terms of persistent failure to reject the null of a unit root.

KSS (2003) develop a strategy for testing the null hypothesis of unit root considering the nonlinear exponential smooth transition autoregressive (ESTAR) model framework. In KSS test, the null hypothesis of the unit root is tested against the nonlinear exponential smooth transition autoregressive (ESTAR) but globally stationary process. KSS (2003) consider the univariate ESTAR of order one model,

$$\Delta y_t = \gamma y_{t-1}\left[1-\exp\left(-\theta y_{t-1}^2\right)\right]+\varepsilon_t \quad (1)$$

KSS (2003) define the null hypothesis of unit root as $\theta = 0$ and the alternative hypothesis of globally ESTAR stationarity as $\theta > 0$. However, testing directly the null of unit root is not feasible because the parameter γ is not identified under the null hypothesis. To overcome this problem, KSS (2003) propose a first order Taylor approximation to the ESTAR model given in equation (3) under the null and present the auxiliary regression.

$$\Delta y_t = \delta y_{t-1}^3 + \varepsilon_t \quad (2)$$

By ordinary least squares (OLS) estimation of this auxiliary regression, the null of unit root can be tested against the globally ESTAR stationarity which corresponds to $H_0 : \delta = 0$ vs. $H_1 : \delta < 0$ using a t-type test statistic which is labeled as t_{NL} and is obtained as $\hat{\delta} \Big/ SE\left(\hat{\delta}\right)$. Here, $\hat{\delta}$ is OLS estimate of δ and $SE\left(\hat{\delta}\right)$ is the standard error of $\hat{\delta}$.

KSS (2003) point out that in the nonlinear models; the modeling of deterministic components such as intercepts and trends is not obvious thus, we use the demeaned and/or detrended data instead of including the deterministic components in the auxiliary regression.

Apart from KSS (2003), Sollis (2009) proposes an alternative to KSS nonlinear unit root test, referred to as an asymmetric ESTAR (AESTAR) model, which allows for symmetric or asymmetric stationary ESTAR nonlinearity under the alternative hypothesis. The main advantage of the Sollis (2009) test is that the nonlinear behavior of the series displays symmetric or asymmetric adjustments for positive and negative deviations towards the equilibrium level.

The AESTAR model of Sollis (2009) employs both an exponential function and a logistic function as follows:

$$\Delta y_t = \left[1-\exp\left(-\theta_1 y_{t-1}^2\right)\right]\left\{\left[1+\exp\left(-\theta_2 y_{t-1}\right)\right]^{-1}\gamma_1 + \left(1-\left[1+\exp\left(-\theta_2 y_{t-1}\right)\right]^{-1}\right)\gamma_2\right\} y_{t-1} + \varepsilon_t \quad (3)$$
$$\theta_1 \geq 0, \quad \theta_2 \geq 0$$

Sollis (2009) follows the same strategy to get the auxiliary regression computing a first-order Taylor series approximation to the AESTAR model under the null. The auxiliary regression is obtained as following computing the first-order Taylor expansion around $\theta_1 = 0$:

$$\Delta y_t = \delta_1 y_{t-1}^3 + \delta_2 y_{t-1}^4 + \varepsilon_t \quad (4)$$

Henceforth, the null hypothesis becomes $H_0 : \delta_1 = \delta_2 = 0$ in the preceding representation. The auxiliary regression model can be estimated using OLS method.

As mentioned Kapetanios et. al. (2003), the modeling deterministic components such as intercept and intercept/trend in auxiliary regression model (in nonlinear models) is obvious, so we use de-meaned and de-trended data. From this point of view, there also exist three cases of F-test statistic for Sollis (2009) test: i) raw data case $\left(F_{AE}\right)$, ii) de-meaned data case $\left(F_{AE,\mu}\right)$ and iii) de-trended data case $\left(F_{AE,t}\right)$.

3.2. Data and Empirical Results

The data set involves annual tax revenues (of GDP) (as a proxy of tax burden variable) of Turkey and European Union for the period from 1972 to 2016, a total of 45 observations. The data are obtained from the World Development Indicators database. In order to test tax burden convergence, we calculate the tax burden differential variable $y_{i,t}$ as following:

$$y_{i,t} = TB_{TURKEY,t} - TB_{EU,t} \quad (5)$$

where $TB_{TURKEY,t}$ denotes the tax burden of Turkey at time t and $TB_{EU,t}$ is the tax burden of European Union during the same period.

We employ nonlinear unit root tests of the KSS (2003) the Sollis (2009) using demeaned data for tax burden differential variable and the optimal lag lengths are determined through Akaike Information Criterion (AIC). We summarize the empirical results in Table 1.

Table 1: The results of KSS and Sollis unit root tests

Unit Root Tests		Lag Lengths	Test Statistics
KSS	$t_{NL,\mu}$	10	-0.96964*
Sollis	$F_{AE,\mu}$	10	0.93466*

Notes: * denotes the rejection of the null hypothesis of unit root at the 5% significance level. The optimal lag lengths are determined through Akaike Information Criterion (AIC).

The results presented in Table 1 indicate that the null hypothesis of unit root cannot be rejected at the 5% significance level according to the nonlinear unit root tests of KSS and Sollis. Thus, there does not exist a convergence in terms of tax burden between Turkey an European Union.

4. Conclusion

The ratio of tax revenues to the GDP used for the tax performance in this study show also the total tax burden of a country.To use the total tax revenue instead of a special tax revenue for tax convergence between Turkey and EU-15 countries, has facilitated to analyze the impact of tax revenues on economic growth and employment. The purpose of present paper is to investigate whether or not tax burden convergence exists between Turkey and the European Union. The data set involves annual tax revenues of GDP (as a proxy of tax burden variable) of Turkey and European Union for the period from 1972 to 2016, a total of 45 observations. We calculate the tax burden differential variable in order to test inflation convergence. The empirical results indicate that the null hypothesis of unit root cannot be rejected at the 5% significance level according to the nonlinear unit root tests of KSS and Sollis. Thus, there does not exist a convergence in terms of tax burden between Turkey and the European Union. As known, efficiency and equity principles of taxation are very important in regard to the tax policy in the EU countries. Our study reminds it should be taken more steps towards more efficient and fair taxation in Turkey. After these steps, it can be achieved to build a more efficient tax system and there can be a tax convergence between Turkey and the European Union.

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REVIEW OF DECENTRALIZATION AND FISCAL AUTONOMY WITH FISCAL AND LEGAL ASPECTS IN TURKEY IN THE LAST YEARS

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Abstract

The concept of decentralisation became one of the most discussed concepts in the literature, especially in political science and public finance in the post-2000 era with the globalisation process and the influence of international fiscal institutions. Many studies were made and literature was formed on the topic, based on the assumption that the transfer of fiscal authorities and responsibilities of the offering of public goods and services would create positive economic consequences particularly in developing countries.

In the post-2000 period, Turkey went into a reform process in the local administrations and made various administrative and legal regulations in this context. In this paper, the theoretic basis of the concept of fiscal decentralisation will be analysed and the progress of fiscal decentralisation in Turkey in the recent years. When talking about the post-2000 period in Turkey, this period can be divided in two. The first part is the one until the law no. 6360 in 2012 which can be called the decentralisation period. The main characteristic of the period after the law no. 6360 is the growing tendency of centralisation. This second period is called "the centralisation of the local" in various research articles.

In this paper, the decentralisation reform processes in Turkey will be analysed in detail in four aspects. In the first aspect, starting from the theoretical debates on the topic, the relationship between fiscal decentralisation and fiscal autonomy and the main arguments about the situation in Turkey will be summarized. In the second aspect, the dynamics of the decentralisation reform process will be discussed through a historical perspective and the fiscal decentralisation experience in the post-2000 period in Turkey will be examined. In conclusion, a general review will be made on the fiscal decentralisation process in Turkey.

Keywords: Fiscal Decentralisation, Fiscal Autonomy, Local Public Finance, Turkey

JEL Code: H71, H72, H77

1. Introduction

Decentralization was discussed widely in public finance literature. The main component of the decentralization, which means the delegation of taxing power and responsibility of spending and to lower levels, is fiscal decentralization. Transferring the authority of conducting public expenditures and collecting income to local governments has revived arguments about authorities of local governments. In the post-2000 period, Turkey went into a reform process in the local administrations and made various administrative and legal regulations in this context.

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In this paper, the theoretic basis of the concept of fiscal decentralisation will be analysed and the progress of fiscal decentralisation in Turkey in the recent years. When talking about the post-2000 period in Turkey, this period can be divided in two. The first part is the one until the law no. 6360 in 2012 which can be called the decentralisation period. The main characteristic of the period after the law no. 6360 is the growing tendency of centralisation. This second period is called "the centralisation of the local" in various research articles.

2. The Concept Of Decentralisation And Theoretical Discussions

The concept of decentralisation refers to the transfer of the authorities and responsibilities concerning public services from the central administration to local administrations, private sector or non-governmental organizations. With decentralisation, public services or goods will be produced in local scale and public decisions will be made by local management. (Kovancılar et al, 2007 :93-94).

The most widely recognised definition for decentralisation for the developing countries in the literature was made by Rondinelli (Acar and Kitapçı, 2009: 86). According to Rondinelli, decentralisation is "…*the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or nongovernmental private or voluntary organizations*…". (Rondinelli, 1989: 58-59). The World Bank describes decentralisation in four different dimensions such as fiscal, political, administrative and market. (Crucq and Hemminga, 2007: 3). Political decentralisation is relevant for federal state structures where there are ethnic and cultural differences and it means that the authorities that pertain to the central administration are transferred to the local units. Administrative decentralisation is the distribution of the authorities, responsibilities and financial resources of the central government among different levels of the government for the provision of services. Unlike political decentralisation, administrative decentralisation can be seen in non-federal governments as well. Decentralisation in terms of market is the transfer of the authorities and responsibilities of the public to the private sector through privatisation and regulation.

Decentralisation was discussed in the public finance literature first by Tiebout (1956), Musgrave (1959) and Oates (1972) in terms of voters' behaviour and provision of public services, and these studies laid an important groundwork for the thought of fiscal federalism. Oates changed the concept of public goods so as to include local public goods and argued with his decentralisation thesis that the provision of public goods different amounts in terms of pareto efficiency and locally as opposed to centrally will create more productive and efficient results (Oates, 1972:35). Decentralisation was analysed in the public finance literature starting from the 1990s within the frame of market failures.

The first and foremost stage of fiscal decentralisation is clearly apportioning decision-making, tasks and expenditure between the central government and the other lower units of management. The second stage is apportioning resources between the centre and the local in order to fulfil the provision of the public services (Yılmaz, Emil and Kerimoğlu, 2012: 52). The

mechanism of resource allocation is gathered under three main titles; transfer of income, income allocation and transfers. Part of the income is transferred directly to local administrations whereas part of it is divided between the central administration and the local administrations due to certain rules and policies. Fiscal transfers have a compensatory function on the inequalities formed between administrations due to income sharings. Two criteria are used in the conventional measurement of fiscal decentralisation. The first is the ratio of the expenditure in the local unit in question (such as municipality, special provincial administration) to the total public expenditure in the province or region where that local unit is. The other criterion is the ratio of the income that is collected locally at a local unit to the public income that is collected at that province or region (Güzel, 2014: 55-56).

Fiscal autonomy is closely related to the concept of fiscal decentralisation. The minimum conditions concerning local fiscal autonomy are specified in the Article 9 of The European Charter of Local Self-Government which is the most important international reference text on decentralisation (Çam, 2015: 25). According to that, fiscal decentralisation includes two main elements that are expressed as expenditure and income responsibilites. Fiscal autonomy expands in regions where the expenditure of the local administrations within the general public expenditure, and the self-income level within the income of the local administrations increase.

The expenditure responsibility which is considered to be one of the fiscal criteria of local administrations is described as the control that the local administrations exercise on their budgets. The common criteria that is used on the measurement and evaluation of the spending power of local administrations is the ratio of the local expenditure within the total public expenditure (Bach, Blöchliger and Wallau, 2009: 3). The expenditure reponsibility refers to the autonomy of decision of the local administrations over the spending policy due to the provision of their own public goods and services. The income responsibility is the right of local governments over their own resources. Fiscal autonomy is at the highest level when local governments determine the tax rates and the basis of tax whereas it is at the lowest level depending on special purpose fiscal transfers (Güzel, 2014: 60-61).

3. Decentralisation in Turkey

In Turkey, the sharing of tasks and responsibilities between administrations takes place between the central administration due to the unitary structure, as well as local administration units that have administrative and fiscal autonomy, and as part of the legal regulations in the recent years, there is an effort to fiscally strengthen local administrations. Nonetheless, due to historical, geographical and economic factors, an essentially centralist structure manifests itself.

Table 1. Local Administration Expenditures (thousand TL)

	2013	2014	2015	2016	2017	2018 (First 9 months)
Administrations attached to municipialities	11.537.832	13.635.014	17.958.472	20.966.714	24.823.300	19.236.473
Special Provincial Administration	14.973.608	6.844.171	7.571.107	7.882.697	9.266.959	8.410.730
Local Administrative unions	3.225.444	1.678.129	2.306.146	2.168.906	2.636.840	2.330.175
Metropolitan Municipialites	22.681.953	30.376.234	35.130.964	45.389.187	56.690.752	44.785.746
Provincial Municipiality	7.078.819	4.358.653	5.153.172	6.364.938	8.089.462	6.822.697
District Municipiality	30.480.918	28.971.669	34.489.640	39.658.165	47.381.358	39.473.721
Municipialities Total Expenditure	59.964.440	63.266.220	73.756.957	91.269.961	112.048.078	91.039.131

Source: Muhasebat ve Mali Kontrol Genel Müdürlüğü (2019), https://muhasebat.hmb.gov.tr/mahalli-idareler-butce-istatistikleri, (01.02.2019).

Depending on the 1982 constitution, metropolitan municipalities were formed in 1984 in Turkey and 16 metropolitan municipalities were founded until 2009. With the laws of local administration that were enacted in 2004 and 2005, new articles on strategic plan making and participation of city councils and NGOs in decision making processes were initiated and furthermore, the power of control of metropolitan municipalities over district municipalities were increased. With the law no. 6360 that was enacted in 2012, 30 metropolitan municipalities were formed, minor municipalities were removed and the borders of the district municipalities included the whole settlement (Başbakanlık, 2012). Likewise, the metropolitan municipalities started including all districts and their borders became the border of the whole metropolitan area. Thus, a quite central system of local administrations that did not need the minor municipalities was formed (Yentürk ve Karabacak, 2018: 173). According to Çam (2015), the fact that the central administration removes the provincial special administrations and minor municipalities within the limits of the metropolitan municipalities and controls 75 percent of the country's population is both problematic in terms of the democratic representation of the local and it reduces efficiency in terms of bringing service to remote regions (Çam, 2015: 44).

4. Conclusion

In Turkey, the division of duties and responsibilities between central and local authorities takes place within the unitary state system between the central state and local administration units. Within the scope of this paper, it is not possible to touch on the legal developments that affect the decentralisation process. But in summary, although there was an effort to strengthen the local administrations financially with the legislative regulations after 2002, the regulations after 2012 were in the direction of increasing centralisation. The magnitude of the expenditure of local administrations can be an indicator for decentralisation debates. Again, the share of self-income within the types of income of local administrations is an indication that is directly proportional with fiscal autonomy. Due to cultural, social and political factors, the administrative management of Turkey has a fundamentally centralist structure. The establishing of directorates of coordination of investment monitoring with the legislative regulation in 2012 can be considered a step towards centralisation. Again with the same law, 30 provinces were turned into metropolitan municipalities; as part of this, minor municipalities were removed; the borders of the district municipalities spread to the whole dwelling; metropolitan municipalities included all the districts in their borders; and their borders were extended as provincial borders. It can be argued that, with this regulation, there were losses in terms of local participation and representation, and that the implementation took place in the opposite direction of decentralisation.

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VALUE-ADDED TAX REFORM AFTER 35 YEARS

Cevdet ALKIŞ[1]

Abstract

To build a strong financial structure, it is necessary to have natural resources or industrialization and also a fair tax system. Tax policy is the first priority for Turkey. The Value Added Tax (VAT), which entered into force on 1 January 1985, has been converted into a system where the minimum tax is paid to the treasury with the help of the self-employed persons who are generally given the public power. The state did not have to settle for it. In 35 years it is necessary to abandon the system which cannot result in economic efficiency. In the new method, final consumption expenditures and taxes on imports are directly paid to the Treasury without any reimbursement or reductions. In addition to the reform, use of counterfeit documents in the sector will end, 1% The state's right to buy will prevent leaks in the sector and the public will be relieved when the tax rate drops. External credit demand and import activity will decrease, national production and exports will increase, value added tax will be added to income and corporate tax base and the system will be simplified. With this new method, the budget deficit will close, with some 70.000.000.000 Turkish Lira additional funding, some other social projects will be easier to implement.

Keywords: Inward value added tax, foreign debt, budget deficit.

JEL Code: H30, H25, H26

1. Introduction

The Value Added Tax Law, which came into force on January 1, 1985, instead of eight indirect taxes, has not undergone any radical innovation to date as a law with a discount and reimbursement system that imposes taxes on economic activities at all levels. The lack of automatic control mechanisms and improper efforts of the participants have eroded the tax payment system. Taxpayers pay only as much as they want, and the State accepts the declared tax.

The subject of the reform is the Value Added Tax.

With the reform, the automatic security method added to the system reduces the tax burden on people, reduces smuggling, import and external borrowing, and the use of counterfeit documents in the sector ends. The reform removes the tax refund mechanism and economic activities are taxed only once in the final consumption phase.

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With the reform, about seventy billion Lira, which are abducted by various methods every year, will enter the Treasury directly, national production will increase and the targeted export levels will be easily reached.

Since the budget deficit will decrease, the requirements of being a social state will be fulfilled effectively.

2. Expression Of Value Added Tax Reform

2.1. Risks of Existing System

In the current Value Added Tax practice, a significant portion of the tax to be transferred to the treasury is reduce by using fraudulent methods from production to final consumption until it reaches the treasury. Many taxpayers do not pay VAT to the Treasury. The state is just watching. Some of the methods used in corruption. “Counterfeit inventory, counterfeit billing, accounting fraud, merger, insufficient control, gaps in the law, etc.”

2.2. Examples of tax losses and Leaks

2.2.1. Tax Loss In ConstructionContracting

While the real selling price is *650.000* Turkish Lira, there is a sales transaction which is shown as *410.000* Turkish Lira in the records. When all calculations related to cost and profit margin are made. The loss of the value added tax of the treasury reached *75.840* Turkish Lira when the tax rebate and rejection were made. The calculations detailed in Table 1 are explained in the full text of the report.

Table 1. Tax loss of the treasury according to real and low sales prices.

Sales price / According to recordings	₺	650.000	410.000	Türkish Lira
Corporate Tax	20 %	59.200	12.160	
Value Added Tax after discount	8 %	16.000	-3.200	- (tax refund)
Buyer and seller tax fees	4 %	26.000	16.400	
Total treasury income		101.200	25.360	
Tax loss of the Treasury				**75.840**

Reference: Interbank Card Center. (2016). Statistics, https://bkm.com.tr/raporlar-ve-yayinlar/donemsel-bilgiler/

2.2.2. Public construction tenders and tax loss

In a construction contract, the value added tax paid by the government to the contractor is 270.000.000 TL. Most of the inputs of the contractor have labor costs that are not subject to Value Added Tax. In order to deduct tax, the service procurement method is used for labor cost. An additional tax record is made through a weak staff. Since there is a Value Added Tax on the invoice, tax is deducted from the discount. Also used be fraudulent documents. Thus, a significant portion of the Value Added Tax is not paid to the treasury.

2.2.3. Taxpayers engaged in wholesale trade and loss of Value Added Tax.

The annual income of a taxpayer is 10.912.000 Turkish Lira. The calculated value added tax is 1.964.000 Turkish Lira. Following the discount, TL 6.178 was paid to the Treasury. Even with 15% profitability, the tax to be calculated for value added appears to be 256.140 TL and it is understood that the tax to be transferred to the Treasury has been subject to fraudulent reduce.

In smuggling, some of the methods such as “counterfeit inventory, counterfeit invoices, accounting fraud, merger, insufficient control, gaps in laws, double taxpayer, etc”, were be used (Tax office declarations, 2016).

2.2.4. Declaration of a taxpayer operating in the service sector and Value Added Tax Loss

The one annual income of a taxpayer is 1.295.000 Türkish Lira. Calculated Value Added Tax is 233.100 Turkish Lira. Value added tax must be paid to the treasury as the main part of the inputs is not subject to the value added tax and the discount will be lower. However, due to the fraudulent practices allowed by the discount method, Value Added Tax has been lost in the way of the Treasury (Tax office declarations, 2016).

2.3. Some Definitions, Operations to be subject to Value Added Tax / Consumption Tax and Operations not to be subject to Value Added Tax.

In the reform, economic activities, which will be subject to taxation and which are not subject to taxation, are included in the full text of the communiqué.

2.4. Calculating the Percentage of Taxed of Credit Card Expenditures at 4-Day Festival and Calculating the Internal Percentage of Income.

Table 2. Sector based credit card payment and rates by sectors.

Payments made by credit card on sectoral basis	2016 sacrifice day (12-15 September) (Türkish Lira)	Share In Payment
Store/Supermarket	496.000.000	18 %
Fuel stations	420.000.000	15 %
Clothing	299.000.000	11 %
Eating / Food	214.000.000	8 %
Accomodation	181.000.000	7 %
Other	1.090.000.000	41 %

Referance: Interbank Card Center. (2016). Statistics.

As seen in the table, the 4-day holiday income is *2.7* billion TL. 37% (496 + 299 + 214) is subject to low tax rate. 63% (420 + 181 + 1.090) is subject to 18% Value Added Tax.

The internal percentage is taken into account in the calculation.In other calculations other than credit card expenditures, the general tax rate was applied to 65% of the total expenditure and the low tax rate to 35% of the total expenditure. The minimum tax rate is calculated as 4.5%.

3. Calculations and Testing of Value Added Tax Reform

In order to see the results of the reform aiming at taxation during the final consumption, it is necessary to know the amount of the local gross national product, which is considered to be the final consumption and which is ready for one year consumption.

In the calculation of 2016 "Revenue Administration annual report, Turkey Statistical Institute, Interbank Card Center, Central Bank, Ministry annual reports and other regulatory data" is used.

In the first calculation, after obtaining only preliminary data for annual credit card income, the non-taxable parts of the annual Gross National Product are to deducted in the second been calculation.

After calculating the income of the last consumption, the annual winnings of taxable final consumption will be calculated by adding minimum earnings to the remaining amounts.

Value added tax, % 65 - % 35 is calculated according to the final consumption taking into consideration the income sharing rates.

Thirdly, the final calculation has been made considering the actual sales, annual credit card, real estate sales, state investment amount, local administrations and private sector investment amounts.

Our accounts were tested with one year consumption value and compared with the budget data (Interbank Card Center, 2016).

3.1. Calculation of Value Added Tax, which will only come from the annual credit card expenditures

Table 3. Value Added Tax Calculation table, which will only come from the annual credit card expenditures

Expenditures made by Credit Card in 2016 (Billion Türkish Lira) [1]	37 % of this amoun [1] (Billion Türkish Lira) [2]	Average of 1% to 8% Ratio ie % 4,5 Value Added Tax [2] (internal ercentage)(Billion Türkish Lira) [3]	63 % Of tis amount [1] (Billion Türkish Lira) [4]	18 % Value Added Tax Internal percentage [4] (Billion Trkih L.) [5]	The sum of domestic VAT (Billion Türkish Lira) [3+5], [6]
652	241	10,3	411	63	73

As it can be seen in the table, only the value of the tax that is calculated from the annual credit card revenu and will be transferred to the treasury is 73.000.000.000 Turkish Lira (Interbank Card Center, 2016 Statistics).

3.2. The calculation of the gross domestic product, which is defined as the value of the final consumption, after the separation of the non-taxable items and after the calculation.

In 2016, gross domestic product is 2.590.000.000.000 Turkish Liras and it can be defined as ready to use value. However, there are elements that are not subject to Value Added Tax. Imports are subject to separate tax, export is tax exempt. There are other exceptions.

Savings of state receivables, savings of personnel expenses and savings ofcurrent transfers cannot enter the system in the same year. The saving part is calculated and kept separate from the one-year default value.

Savings, after separation, the final consumption value is found, Value Added Tax is calculated once. Accordingly, the Value Added Tax required to be paid to the Treasury is calculated in Table 4-5 and compared with the amount entered in the budget in the current system.

Table 4. From GDP, decomposition table of non-taxable proceeds.

	Türkish Lira
Domestic Gross National Product	*2.590.000.000.000*
Sum of non-taxable values	***1.339.000.000.000***
Taxable values	***1.251.000.000.000***
10 % minimum profit added values	***1.376.000.000.000***
% 65 of % 18 Value Added Tax	***161.000.000.000***
% 35 of % 4.5 Value Added Tax	***22.000.000.000***
Calculated Value Added Tax sum	***183.000.000.000***
2016 Domestic Value Added Tax	***92.000.000.000***
The difference in treasury income. Domestic Value Added Tax	***91.000.000.000***

Reference: Turkish Statistical Institute. (2016) Export, Import, New Residence Sale, Revenue Administration; (2016) Activity Report and budget data

As the table shows, it is possible to obtain a maximum of try *91.000.000.000* of additional treasury income per year according to the calculation made on the value available for annual consumption.

This amount is *63.000.000.000* Turkish Lira even when the general rate is reduced to 15%.

3.3. Calculation and Testing by taking into account the annual credit card sales, countrywide residential sales, state investment amount, local administrations and private sector investments.

Table 5. Amount of value added tax calculated according to the data

	Instructions	Amount Million Trksh L	63-65 % Million Trksh L	35-37 % Million Trksh L	18 % Tax	4,5 % Tax
1	Credit Card Proceeds 37 %	241.000		230.622		10.377
1	Credit Card Proceeds 63 %	411.000	348.305		62.695	
	1 Total and its tax	652.000	348.000	230.622	62.695	10.377
2	State investments	64.000	42.000	22.000		
2	Private sector capital investments	363.000	235.950	127.050		
2	Local administrations capital investment	29.000	18.850	10.150		
	1 Total and its tax	456.000	296.800	159.200	53.424	7.164
		Piece	Million Trksh L	Million Trksh L	Million Trksh L	Million Trksh L
	New house sales	631.000				
		Million Trksh L.				
3	631.000*300.000=	190.000	123.500	66.500	22.230	2.993
	General Tax Total				138.349	20.534
	Tax to be collected according to annual income-corporate tax decleration					**9.000**
	Final ready to consume value	1.225 (Billion T.L)				
	Total Value Added Tax					**167.883**
	Amount in the budget					**92.000**
	Extra Treasury Income					**75.883**

Reference: Interbank Card Center. (2016) Statistics, Ministry of Environment and Urbanization. (2016). Construction M² Costs, Revenue Administration. (2016) Annual Report and Budget Data, Central Bank. (2016) Exchange Rates, General Directorate of Accounting. (2016) Budget Realizations, Turkey Statistical Institute. (2016) Export Import and Annual New House Sales T.L "Turkish Lira"

As calculated in Table 6;

In cases where many other income components are not taken into consideration, the Annual Value Added Tax to be added to the Treasury (138,349 20,534 = 159 9-92 = 76,000,000,000 Turkish Lira).

Even if the general rate is 15%, the annual additional treasury income (18% revenue 767 * 3 = 23 Billion), (76-23-2 =) 51,000,000,000 Turkish Lira.

When we get the average of the data obtained as a result of the calculations based on different data and ratios, as in Table 6.

Table 6. Table of the average additional resources obtained

Section	According to General Ratio of 18% (Billion Türkish Lira)	According to General Ratio of 15% (Billion Türkish Lira)
3.1. Table 2	91	65
3.3. Table 3	76	51
Average (~ Approximate)	83	58
~ General average	(83+58)/2 =	70

As can be seen in Table 7, the annual average of additional treasury income can be calculated as approximately 70.000.000.000 Turkish Liras.

3.4. Calculation of Value Added Tax over annual declarations of taxpayers.

In the reform, the taxpayers' annually declared income will be subject to additional value added tax / consumption tax.

Tax is calculated as shown in Table 7.

Table 7- "Value Added Tax / Consumption Tax" calculation table from tax basis on Annual Income Tax , Corporate Tax

Taxes except advance tax and deduction		(Türkish Lira)	10.090.000.000
Calculation of tax basis from 20% of tax "~"	10.090 x 100/20	(Türkish Lira)	50.450.000.000
Value Added Tax Calculation	50.450 x 18/100	(Türkish Lira)	9.000.000.000

Reference: Revenue Administration presidency (2016) budget data.

3.5. Penalty practice

Value Added Tax / Consumption Tax, which is determined not to be deposited in the Treasury, shall be collected with a three-fold penalty without any discount.

(Article 359 shall not be considered a crime. In our reform, the Article 359 will be reorganized with the logic of material punishment for material crime.)

3.6. Transfer to the next period and the application of value added tax

When the reform is realized, taxpayers will dissolve their, Deferred Value Added Tax in their stocks within 5-10 years according to the law to be enacted.

3.7. Generating Automatic Control Mechanism

Placed in the system,

The method, which gives the state the right to buy 1% extra, will provide the real price in the real estate market.

3.8. The Concept of Tax to be used in Reform

Since the value added tax is already taxed at the end of the final consumption, the term to be used may be the Value-Added Tax (VAT), and this term may also be used in the Law and in the literature as a Consumption Tax (CT).

4. Conclusion

With the reform, the method by which the value added tax calculated after the discount is paid to the treasury is removed. Value Added Tax return method is removed. Only economic activities at the final consumption stage will be taxed once.

The value added tax / excise tax collected shall paid directly to the treasury.

Furthermore;

• It is aimed to prevent smuggling of immovable sales prices by means of automatic control that provides the right to purchase to the state.

The state's right to purchase can be set as 1% added and as upper limit.

•Value added tax / consumption tax shall be applied to the income tax and corporate tax base declared with annual declaration.

This application is done in addition.

•Legislation and exceptions will be simplified.

• As import continues to be taxable, tax (VAT-CT) is recorded as cost.

• When the tax is found not to be paid to the treasury, the tax and three-fold tax penalty shall be as collected.

• The distorted system in external debt formation will be eliminated and exports will be encouraged as national production increases.

• The use of counterfeit bills will be reduced by 95%.

• The 18% general tax rate of VAT will be reduced.

• When reform is made, taxpayers can write the value added tax transferred from old years as expense within 5-10 years.

• There will be a simple, fairer control method. This will create awareness for taxpayers.

• Tax will not be transferred to other areas by illegal methods.

• When E is supported by accounting and e-billing systems, centralized audit will be easier and audit rates will be increased.

• Most importantly, approximately 70.000.000.000 Turkish Lira additional treasury income will facilitate the implementation of other public projects and budget deficit will be minimum.

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THE ANALYSIS WITH STRUCTURAL EQUATION MODELLING OF THE FACTORS THAT DETERMINE CITIZENS' SATISFACTION WITH SOCIAL SERVICES AND AIDS PROVIDED BY LOCAL GOVERNMENTS

Gonca GÜNGÖR GÖKSU[1]

Abstract

The aim of the study is to analyze the factors which are affecting the satisfaction of citizens from social services and aids provided by local governments through structural equation modeling. Another aim that is wanted to reach in the study is to be determined elements which should be considered in being prepared a local government budget sensitive to social needs. In the context of the study, a scale which name is *"Citizens' Satisfaction from Social Services and Social Assistance Provided by Local Authorities*" has been improved. Primarily, a survey form which consists of 40 questions related to social services and aids that are in the duties and responsibilities of local governments was prepared. In order to determine the satisfaction levels of 800 voluntary participants who live in Sakarya city from social services and aids performed by local administrations, their ideas were asked to declare. The statements in the survey were designed by considering various laws and reviewing literature. In the first step of analyzing, percentages of responses to related expressions were calculated so that according to 2/3 relative unanimity rule, every statement which was replied as total 66.6% positively were included in explanatory factor analysis. In the next step, the main factors obtained through the explanatory factor analysis were undergone both a first-degree and second-degree confirmatory factor analysis. When evaluated the results of the study, it was concluded that total twenty-nine statements, which affects the satisfaction levels of citizens from social services and social assistance provided by local authorities, loaded under five main factors. Moreover, the finding was reached that one unit increases in these five main factors have effects changing between 0.67 and 0.92 on the satisfaction levels of citizens.

Keywords: Local Government, Social Work, Social Assistance, Structural Equation Modelling

JEL Code: H55, H72, H75

1. Introduction

Following the 1929 Great Depression, social or welfare state, which had come into play along with the implementation of Keynesian economic policies (Gül, 2013: 69), began losing influence in many countries including the United States of America by the second half of 1970s. When Neo-liberal economic policies took over, after 1980 in specific, social services offered by local governments as well as the central administration were severely criticized, resulting in various restrictions due to the fact that social spending was reduced by Neo-liberal economic policies in numerous countries. Subsequently, practices based on global competition and minimization of

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state had a deep impact on actions for social policies (Güloğlu and Es, 2008: 259). Fast forward to today, not only central administration, but also local governments are considered a means for developing solutions for social issues, since the rise in capital stock, global advances in information and communication technologies and central administration placing emphasis on regulatory and supervisory policies by the late 20th century made for higher significance in local governments. (Caner and Açıkalın, 2008: 274). Meanwhile, local governments are entities of public service closest to the local people that carry out social policies and services responsibly (Aydın, 2008: 17).

Both municipalities and provincial special administrations were charged with vital duties within the scope of social policies in Turkey. The Metropolitan Municipal Law (no: 5216), The Municipal Law (no: 5393), The Law on Aiding the Military Families in Need (no: 4109), The Municipal Revenues Law (no: 2464), The Law on Wages for Artists, Specialists, Servants and Interns with the Municipal Operas and Theaters (no: 37), The Environmental Law (no: 2872), The Law on the Preservation of Cultural and Natural Assets (no: 2863), The Law on Cinema, Video and Music Works (no: 3257) contain the relevant articles with respect to social municipality whereas the Law of Provincial Special Administration is comprised of the responsibilities undertaken by the provincial special administrations in terms of social services and aids. The primary focus of this study is, through structural equation modeling, to analyze the factors affecting the level of satisfaction of citizens pertaining to social services and aids provided by local governments. Secondarily, it is the designation of items to consider while preparing a local government budget that is liable for social needs.

2. Conceptual Analysis of Social Services and Aids

The concept of social policies, which fundamentally aims to meet the social needs and increase the welfare level of individuals, analyzes the connection between the practices of social services and welfare state and the community and politics. Additionally, another important framework is the examination of the impact of economic actions on the people as well as the social events they cause. (Tiyek, 2012: 55-56). It would be more accurate to distinguish the concept of social policies as narrow-scoped and far-reaching because they respectively involve conflicts between the employer and employees only in the capitalist system, and the social development, justice, balance, integration and the overall social development bringing solutions to social groups in all social domains. (Güloğlu and Es, 2008: 259).

This study was based on the wide use of the concept of social policies as its extended definition is: (1) To administer social services including fair income distribution, health, housing, education and social services policies, (2) To focus in on the needs and issues that have an effect on the receivers of the service including policies of the poor, old, disabled as well as families. (3) To provide higher prosperity. (Spicker, 2007). One prominent means of social policies is the social security, which is implemented in three ways: social insurance, social services and aids. Social insurance rests against premium while the latter involves non-premium based practices, financed by taxes. (Güloğlu and Es, 2008: 260). Social services and aids are influential in providing social involvement for disadvantaged individuals and groups in terms of ensuring social justice and the mission of being a social citizen. (Altuntaş, 2009: 170). Thus, the concept of social services is used

to mean services provided publicly or in private in order to aid disadvantaged or defenseless individuals and groups (Pinker, 2018) whereas the concept of social aids is defined as any aid in kind or financial aid provided outright by public institutions and foundations for those in need. (Türkoğlu, 2013: 280). In a nutshell, social aids are outright financial aids and social services are a way of providing specific services. (Güloğlu and Es, 2008: 260).

3. The Scope of Social Services and Aids Provided by Local Governments

Local governments that function as units of autonomous government are municipalities, provincial administration and borough administrations in Turkey (Tiyek, 2012: 54) and they are not directly dependent on the central government since local governments are authorized to regulate and administer the majority of public events responsibly, within the interest of local people. Therefore, the existence of free decision-making bodies allows local governments to possess administrative and financial autonomy (Küçük, 2018: 36). However, due to a lack of income and staff, provincial administrations were bound to perform actions exposed to the central government, which led to their gradual dysfunction. As a result, municipal administrations came to be the main foundations of local governments (Republic of Turkey, General Directorate of Families and Social Research, 2010:42).As previously explained in the introduction section, social services and aids that local governments in Turkey are in charge of are stated in a good many scopes of law. Nonetheless, it is unfeasible to elaborate on all the social services and aids provided by local governments in this study owing to the page limitation. Just the same, they can be grouped under three basic categories: (1) Providing cash money, clothes, food, fuel, scholarships for the elderly, disabled, poor, defenseless children, women, families and young people, (2) Services on health, education, housing, artistic and cultural events, (3) Services on the protection of the environment, natural assets and urban history.

4. Research Analysis and Findings

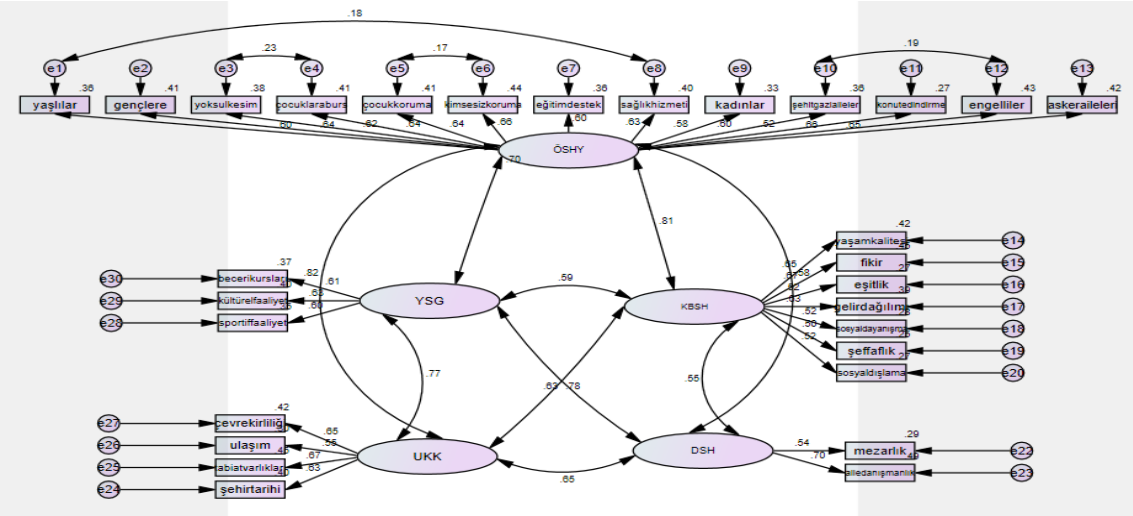
Within the scope of the study, a scale called "*Satisfaction of Citizens from Social Services and Social Aids that is Provided by Local Governments*", which consists of five dimensions and 30 questions, has been developed. This scale has been prepared to determine the public services that directly affect the satisfaction of citizens from social services and social aids which are provided by local administrations and to determine these services are loaded on which factors. All analyzes were performed using SPSS 22 and AMOS 20 package programs. Exploratory factor analysis was applied to the observed variables (questions) with SPSS 22 program. According to findings, a total of 30 observed variables were collected under five factors. In Table 1, factors and the reliability analysis results of each factor are included. When reliability analysis was implemented to all questions at the same time, the result achieved was 0.923, and this value indicates that the scale has been reliable and valid.

Table 1. Rotated Factor Analysis and Reliability Analysis Results of Each Factor

Factor	Factor Name	Question No	Cronbach's Alpha
1	Priority Social Services and Aids	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13	.892
2	Participatory Budgeting and Social Goals	14, 15, 16, 17, 18, 19, 20	.771
3	Competency and Social Development	21, 22, 23	.642
4	Transport Network and City Protection	24, 25, 26, 27	.798
5	Other Social Services	28, 29, 30	.549

Source: Own elaboration from SPSS 22 outputs.

Figure 1. The First Level Confirmatory Factor Analysis



Source: Own elaboration from AMOS 20 outputs.

Five factors determined by explanatory factor analysis were re-analyzed using AMOS 20 program. Figure 1 shows the results obtained with the first level confirmatory factor analysis. According to the results of the analysis, the results of goodness of fit (CMIN/DF = 2.89, GFI = .915, CFI = .911, RMR = 0.045 and RMESA = 0.049) are in the desired range. However, the statement of "*Local governments should give importance to religious services*", which had a load of 0.264, was left out of the analyze because its loading was inadequate to explain the size of Other Social Services. At the next step, a total of 29 observed variables were analyzed again. When the analysis was repeated with 29 observed variables, it has been concluded that the regression coefficients of all

observed variables were found significant (P=.000). More clearly; it has been seen that all of the observed variables are indicative of the factor at which they are loaded. Figure 1 shows the first level confirmatory factor analysis. The effects of observed variables on the latent variables are included in the figure. According to the standard regression weights obtained in the study:

i. The question that most influenced the factor of *Priority Social Services and Aids* is the statement "*Local government should give importance to the services for homeless*" with a load of 0.659.

ii. The question that most influenced the factor of *Participatory Budget and Social Targets* is the statement "*Local governments should take the ideas of local people in order to determine social needs*" with a load of 0.670.

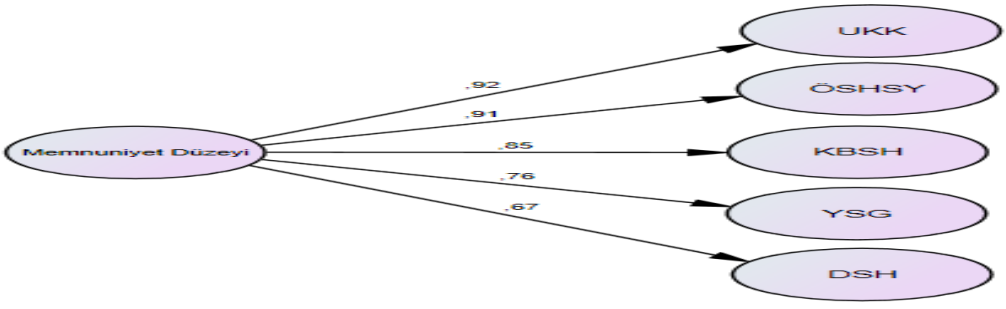
iii. The question that most influenced the factor of *Competency and Social Development* has been the statement "*Local governments should pay attention to art and cultural activities*" with a load of 0.629.

iv. The question that most influenced the factor of *Transportation Network and City Protection* has been the statement "*Local governments should give importance to services to protect natural assets*" with a load of 0.670.

v. The question that most influenced the factor of Other Social Services has been the statement "*Local governments should give importance to family counseling services*" with a load of 0.702.

Figure 2 shows the results of the second level confirmatory factor analysis. Goodness of fit (CMIN/DF= 3.04, GFI = .913, CFI = .907, RMR = .046 and RMESA = .051) were found in the desired range and all regression coefficients were found significant (P= .000). According to the results, while the factor of Transportation Network and City Protection that has a load of 0.92 affects mostly the satisfaction of citizens from the social services and aids provided by local governments, the least affecting factor with a load of 0.67 is the Other Social Services.

Figure 2. The Second Level Confirmatory Factor Analysis



Source: Own elaboration from AMOS 20 outputs.

5. Conclusion and Evaluation

When the results of the study have been generally evaluated, the first conclusion was found that 1 unit increase in the services of the transportation network and city protection causes the increase of 0.92 on the satisfaction of citizens from the social services and aids provided by local governments. Among other findings were reached that (i) 1 unit increase in priority social services and social aids causes the increase of 0.91 on the satisfaction of citizens, (ii) 1 unit increase in services regarding participatory budget and social targets causes the increase of 0.85 on the satisfaction level, (iii) 1 unit increase in services regarding competency and social development causes the increase of 0.76 on satisfaction level, and (iv) 1 unit increase in other social services causes the increase of 0.67 on satisfaction level. It is thought that the study will contribute to the literature and inform local authorities about the subject.

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THE EVALUATION OF INTENSIVE MUNICIPAL ECONOMIC ENTERPRISES IN LOCAL GOVERNMENTS FROM THE POINT OF VIEW OF PUBLIC BENEFIT

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Abstract

Today, municipalities, which are a local government unit, are provided with legal and financial opportunities to meet the common local needs and to fulfill the relevant services. However, the municipalities prefer the way of corporatization with the settlements such as Municipality-Owned Enterprises (MOEs), subsidiary company, and partnership in fulfilling services and rendering of various goods and services. Through the application of MOEs, which offers an alternative to municipalities in the case of income generation, it provides operating in market economy according to market conditions in line with the increase in local public benefit of a public entity. Public correlation in the state of establishment and management of MOEs may cause them to be in a different status than other actors of the market. MOEs are established according to the reasons such as efficient and local service delivery through privatization, the use of opportunities and techniques in market economy without bureaucratic processing burden, benefiting the flexible wage policy and skilled labor, reducing the effect of centralized administration supervision, the generation of new income sources, and the use and diversification of local opportunities. In addition, these enterprises should be evaluated in terms of wealth matters such as efficiency in local service delivery, financial supervision, the competition in market economy, and corresponding of social choices. In this study, legal regulations constituting a basis for the establishment of MOEs, summarized the reasons and form of establishment, its structure, fields of activity, efficiency and productivity levels and used as an alternative delivering service method at the local level, and its application results will be examined.

Keywords: Local Service Delivery, Municipality-Owned Enterprises, Corporatization, Supervision

JEL Code: H41, H72

1. Introduction

The duties of municipalities established in order to meet the common needs of people living in a certain region from transportation to landscaping, from public health to sports facilities, from cultural activities and facilities to parking lots and many other services are given in detail both in the Metropolitan Municipality Law no. 5216 and Municipality Law no. 5393, a statement "it fulfills all services regarding inhabitants is given, and the limits of duties stated in the law is extended

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majorly. In this respect, it can be said that municipalities of various sizes try to provide public, semi-public goods and services at the local level related to local people and some other goods and services for the market. Due to the relevant regulations tried to be structured by taking each detail that municipalities may need during delivering all these services, it is provided that they can provide the necessary services to inhabitants without any legal obstacle. In other words, there is no legal obstacle that the municipalities face for the realization of any service that will increase the welfare of the inhabitants. In spite of this comfort in the legal framework, it is observed that alternative and indirect service delivery methods are frequently used by presenting different reasons instead of performing directly through the municipality in providing some services in today's municipality practices. The first one of these relevant methods is the supply of various goods and services by means of Municipality-Owned Enterprises (MOEs) or partnership and association. Indeed, the consistency of the application results of this method used by introducing many reasons as it increases the efficiency level of supplied services, economization from the resources used, and even the generation of new resource with relevant discourses constitutes the basis of this study.

2. The Concept of Municipality-Owned Enterprise

In addition to the implementation of local services within the scope of public benefit, local governments can produce and deliver goods and services to the market through affiliated enterprises or companies established within the framework of the Turkish Commercial Code in order to stimulate economic life at local level, increase employment and generate income for local government units (Yılmaz et al., 2012: 64).

While more than half of the capital belongs to a municipality, MOEs are defined as legal entities of private law that the municipality keeps the administrations, operates in any subject that fall into the remit of municipality, has an independent budget than the municipality, utilizes supplies within the framework of Public Procurement Law provisions no. 4734, has spending and loan subjected to the 63rd article of Municipal Law no. 5393, and has accountability to the Court of Accounts with Law on the Courts of Accounts no. 6085. With another definition, MOEs are defined as companies established by the municipalities, that their property and supervision belong to the municipality, their board of directors are appointed by the municipalities, finance their recurring expenditure with the revenues earned from their own funds and activities, provide the production or introduction of private goods and services in the priority of public benefit (Akalın, 1994: 17).

3. Reasons of Establishment of Municipality-Owned Enterprises

When we look at the reasons of existence of MOEs, used as a way of municipality service in the direction of contribution directly to local development and indirectly to national development and to present local services with a flexible and effective structure and process (Berk, 2003: 52), it is seen that the some reasons are related to the prevention of possible bureaucratic obstacles when encountered during the provision of services. Delays and procrastination resulting from bureaucracy and situations that may be encountered as a result of the tendencies of bureaucrats

who cannot take risks may hamper service delivery in the case of providing some services which are obligatory to be met for the needs of local people. It is known that the current tendency to take the risk in the public sector is one of the reasons for privatization; in cases where urgent decisions are required, the existence of such structures having the flexibility of a company is thought to greatly facilitate the work of the municipalities.

Apart from the salary policy of the municipality budget, it is also aimed to assign the task to MOEs in the employment of qualified personnel with the characteristics that are expected to be performed in the best way. In this way, it is argued that the utilization of MOEs in the provision of employment will be helpful in the efficiency and the employment of the competent workers.

The argument that MOEs can be used actively to be able to reduce the transfer of some of the public funds emerging as a result of delivering certain services through companies in service in the private sector constitutes another reason. In this way, the idea that municipalities can convert some of the cost elements they are obliged to produce service by means of MOEs constitutes the basis for the use of MOEs in these services.

Nowadays, municipalities can easily meet the needs of private sector from café, restaurant management to bread production by means of MOEs and municipality partnerships, and it is thought that it serves important purposes such as successful, standardized, and delivering low cost goods and services by MOEs and partnerships. Another reason is the idea that these relevant companies specialize in the jobs they do over time, make important contributions to the R&D activities related to the business and also have the qualifications to operate outside of the local boundaries. Thus, it is assumed that MOEs and partnerships, that can produce goods and services in exchange for price for nationwide and even abroad, can reach significant incomes.

Another reason that is argued MOEs and partnerships provide for municipalities and is constitutive for their establishment, is the assertion that they will contribute to the formation of competitive prices in delivering goods and services for public. Therefore, it is stated that municipalities may have great savings opportunities even in the services which are not directly fulfilled by their partnerships or MOEs.

In the utilization of large projects of MOEs and partnerships, the fact that banks can benefit from the credit facilities offered to capital companies is among the reasons for establishing MOEs by municipalities. Thus, the assumption that many investments that may be necessary to be provided and which may be profitable in the future can be realized more smoothly through accessible credit facilities are one of the reasons regarding establishment of MOEs. Besides, the idea that municipalities will be able to access new resources through privatization and going public of MOEs developing over time and their partnership is among the thoughts expressed.

All of these reasons should serve the highest purpose of public benefit. Although the concept of public benefit is not a concept that encompasses all sectors that constitutes the society, it connotes an application that is in favor of the majority comparatively. If the results of the application are determined to be in this way, and the results are reverse while this method should be extended to the wider segments, its reasons and results should be revealed.

4. The Problem of Efficiency, Supervision, and Competition Created by Municipality-Owned Enterprises

4.1. The Determinations in terms of Regulations

MOEs have regulation shortcomings in terms of efficiency, supervision and competition. The biggest problem encountered in practice is that regular independent reports and data of these enterprises are not shared with the public. If the mentioned municipal incorporations or their affiliates are highly acclaimed and are engaged in activities that maximize the public benefit and no one can appeal, why are the details of their expenditures not as open and transparent as any company whose shares are traded on the stock exchange? Moreover, we have started to receive some partial information of these companies with a number of implementation results that are reflected in the Court of Accounts reports after 2013.

Municipalities can show a tendency to expansion for the purpose of being out of control by corporatization, establishing an Assoc.d company, partnering with established companies and continue their activities by availing to managers and pressure groups even in the case of loss-making during current period. (T.C. Ministry of Development, 2014: 158). In this regard, the supervision of such initiatives by municipalities constitutes an important issue to be considered. Article 4 of the Law on the Turkish Court of Accounts no. 6085 includes all the administration, organization, establishment, association, operation and companies, which are affiliated to the municipalities that are not subject to external audit until 2013 amendment, within the scope of the Court of Auditors audit, established by the municipalities or directly or indirectly partnered. However, the fact that the effort to reduce the load of legal processes, which is the purpose for the establishment of MOEs in relevant law, contradiction with the issue regarding the generation of a flexible area of activity for municipalities (Karabilgin, 1992: 24), the effect of the external auditing to be realized on financial efficiency and service productivity may have negative consequences.

In order to ensure the return of the funds transferred from the public sector to the private sector to the municipalities (State Planning Organization, 2001: 88), there is an ongoing debate regarding the lack of a restriction on the municipal corporations to enter municipal tenders under the Public Procurement Law no. 4374. Article 5 of the related law states that the contracting authorities must meet the requirements such as transparency, competition, equal treatment, credibility, public opinion, efficiency, and optimal resource utilization for the tenders. However, in the case that the municipal corporations are included in the tenders realized by the open tender procedure in accordance with the law, other companies do not participate in the tender or cannot enter due to the existing preventive provisions in the technical specifications (Meşe, 2011: 211). In practice, it is seen that the number of tenders of municipality-owned companies in municipality tenders proves this situation and in particular it is at a level that would undermine the provisions of competition and equal treatment (İlhan, 2013: 10). The excess of such practices harms the market economy, and the cheapness provided in the inputs prior to service delivery may lead to a reduction in the local public benefit by causing a possible poor quality. On the other hand, the fact that municipalities that has the financial and administrative autonomy according

to the legal basis, and its decision-making bodies are determined by the electorate realize the service delivery by establishing companies in the direction of the representation of the voter may lead to bureaucratic preferences instead of electoral preferences; in other words, it may lead to principal-agent problem.

Thus, when we look at the factors such as the formation of more competitive prices in the tenders that motivated the establishment of the company at the first stage, the saving of the public funds, employing of the competent personnel who know the work, it is understood that none of these goals were realized, only the legal supervision process did not work and a structure based on arbitrariness was formed. As things stand, an employment in line with the dominant thought that directs the politics is aimed, which is obvious that it is not in favor of public benefit and finances the politics in a sense. When municipality and corporate incomes for the local public benefit by the structure MOE and partnerships with specified reasons, it must be either to be ended immediately or the structure must be corrected rapidly. At the first stage, municipal corporations, which are also subject to the provisions of the Turkish Commercial Code, should be financed from municipal revenues in the case of damage.

4.2. The Determinations regarding İstanbul Metropolitan Municipality Application

In order to obtain concrete information about the activities of MOEs and partnerships, which undertook the delivery of goods and services to the people towards local public benefit, when we consider the case of Istanbul Metropolitan Municipality, only partial data of these companies can be reached in the activity reports of the Municipality. However, in order to understand whether an activity is of public benefit or not, we need to have detailed information about the activity. So, some sub-elements such as transparency and accountability, which we believe to be within the scope of the concept of public benefit, cannot be found from the beginning in the case of Istanbul Metropolitan Municipality.

Table 1. İstanbul Metropolitan Municipality Data regarding MOEs and Partnerships

Years	Number of Companies	Revenues (TL)	Expenditures (TL)	Number of Employees	Employee Growth Rate (%)	Profitability Rate (%)
2011	24	6.532.260.935	5.976.665.869	12.092	-	8,51
2012	25	7.399.667.147	6.736.903.840	12.789	5,76	8,96
2013	25	9.000.385.675	9.449.989.725	14.713	15,04	-5,00
2014	26	9.247.619.274	8.756.976.666	**23.284**	**58,25**	5,31
2015	26	12.093.108.862	10.744.815.224	25.135	7,95	11,15
2016	26	13.364.821.537	12.139.902.334	26.374	4,93	9,17
2017	28	15.361.269.321	14.427.314.654	28.673	8,72	6,08

Source: Relevant Years İstanbul Metropolitan Municipality are created through Activity Reports by us.

According to the Table 1, while 14,713 people are employed in 28 companies in Istanbul Metropolitan Municipality in a total of 28 companies in 2013, 28,673 people are employed in 2017. At the same time, the number of employees in Istanbul Metropolitan Municipality is 13.174-13.488. By means of these data, it is concluded that most of the municipal services are carried out through companies. It is also understood that the companies are used as a partial employment warehouses, just as in the case of Government Business Enterprises at one time by looking out for the benefit of a part of public. In addition, the sudden increase observed in the personnel employment by companies in 2014, when the previous local elections were held, strengthens our argument. In that case, the claim that companies belonging to a municipality generating income from all the local people make employment planning for only a certain part of the population and that an evaluation based on the quality of the service is not considered when making this planning gains strength. Of course, if there is data to prove that this claim is not true, the necessary academic measurement can be carried out easily.

When we look at the profitability ratios of the increasing number of MOEs and partnerships, it is observed that the number of those who gain profit and loss on the basis of companies is almost equal and they make an average profit of 6.3% between the years 2011-2017 in total (Table 1). Losses are financed by the municipalities in the case that these companies lose money. There is no bankruptcy organization. Therefore, the lack of profit motive and the organization of bankruptcy, which are one of the privatization reasons we all know, is also generally valid for MOEs and its partnerships, and their position in the local public governments should be questioned. As stated by some of the thinkers in this field, the idea that they consults MOEs and affiliates as a solution as a result of the insufficiency of income while performing the activities of municipalities does not comply with the reality in this situation. Because companies do not seem profitable.

- When the reports of the Court of Accounts in different years are examined, following findings can be reached:
- Instead of being deposited in the municipality account of the dividends generated in the companies, it is continued to be used by companies; thus, interest-free capital are made used by companies.
- The management of the advertising units in the parking areas and public transportation areas are given to the companies instead of the municipalities,
- The immovable properties, which their operating right is transferred to the metropolitan municipal corporations, are transferred to the third parties without any tender.
- The assistance provided to the county municipalities by the metropolitan municipality is obtained from the metropolitan municipal companies without tender.
- The municipalities buy assets more costly than their own companies and the price is not made below enough regarding approximate cost (compared to a private sector firm operating in the same sector),
- Tenders that are won are given to third companies with subcontracts,

- Compared to the situation that municipal corporations participate in municipal tenders, it is seen that there are many issues observed in which fewer companies participated in tenders when the municipal corporations do not participate to the municipal tenders.

The legal and administrative structure that distributes the surpluses generated to the stakeholders and the loss to the public and make extra effort to minimize the profitability should be corrected immediately and the bankruptcy organization should be brought together with responsibility.

5. Conclusion

Despite the privatization flows that are realized in the public sector in various extents after 1980s, the majority of municipalities that offer public and semi-public services and goods that are of local qualities benefit from incorporated companies while providing such services. Certain factors, such as effective allocation of resources in providing services, elasticity and practicability, are shown as the main reasons for the situation. However, whether there is an accord between the results of the implementation and these reasons must be questioned with the perspective of public benefit. If services are provided in cheaper, more effective, and faster ways through the mentioned reasons, there may be a need for generalizations of such services among the public sector. That said, many MOEs seem to be losing money does not correlate with the main purpose of such municipality enterprises. In this respect, compulsory transfer financial resources from the public sector in case of loss, as well as non-compulsory transfer of resources to the public sector in case of profit, seem to clarify the losses in the activity reports. That such municipality enterprises providing benefits for administrative managers or employees more than for the public service creates problem regarding the ineffective and ambiguous allocation of public resources. In relation to the mentioned reasons, conducting such an implementation in the way of maximizing public benefit requires transparent management and operation mechanisms, merit based administration and employment structures, and an effective controlling system.

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IS IT POSSIBLE TO TAX INTERNATIONAL TRADE OF ARMS DURING THE CRISIS OF THE TAX STATE?

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Abstract

Global taxes can be used primarily to restrict the production of goods that create negative externalities and/or international organizations which collect revenues of global taxes can use them to solve serious global problems. In this regard, the paper proposes application of semi tax by countries (quasi-taxes in the form of membership) in addition to taxing only military industries. In this case, also the exporting governments would be "taxed" by international agencies such as the International Organization for Migration. The paper also recommends that the tax revenue gathered from both sources should be used for people who have to migrate because of wars. Although an academic contribution can be made on the subject in this way, is it possible to apply this proposal in the real life? The main emphasis point of the paper is to discuss the current state of the capitalist system against theoretical solutions.

In this context, in the first part of the paper the data of the migrations resulting from wars in recent years will be presented and the deaths experienced during the illegal migration process will be pointed out. After discussing the theoretical framework of the loss in tax revenues expressed as the financial crisis of the state and the crisis of tax state, in the second chapter, the proposals for the taxation of arms trade will be presented, analyzed and discussed. In the third part, in addition to the taxation of arms industry, the "taxation" of the arms exporting countries will be discussed as an alternative taxation. Thus, the paper aims to create a mechanism that can contribute to the economic problems of war migrants. Finally the paper draws attentions to the difficulties of implementation of global tax proposals along with the neoliberal policies which inhibits the activations of such proposals.

Keywords: Global Taxes, Taxation of the International Arms Trade, Quasi Taxes, Crisis of the Tax State, Forced Migration

JEL Code: H2, H5, H6, H7

1. Introduction

In the process of globalization, the mobility of capital in the framework of neoliberal policies erodes the ability of the state to collect tax revenue. In this context, while discussing the crisis of the state, global tax proposals aimed to resolve global problems such as capital movements or climate changes are also being developed. The paper will put forward the applicability of less discussed global tax proposal, such as "taxation of the international arms trade" during the crisis of the tax state.

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According to the United Nations Refugee Agency, the number of forcibly displaced people as a result of persecution, conflict, or generalized violence has grown by over 50% in the last 10 years. Migrants often face many problems, such as racist and exclusionary attitudes towards them. The paper will try to contribute to the solution of this humanitarian drama, at least from the economic perspective.

2. Migrations Resulting from Wars

As a result of persecution, conflict, or generalized violence there were 42.7 million forcibly displaced people in 2007, and at the end of 2017 the figure was 68.5 million 42 % of which comprised refugees and 3.1 million asylum-seekers. Today 1 out of every 110 people in the world is displaced (UNHCR, 2018).

The radical increase in the number of forcibly displaced people concentrate between 2013 and 2017, mainly because of the Syrian conflict, other conflicts in the Middle East Region and in sub-Saharan Africa (UNHCR, 2018). More than half (68%) of the world's refugees in 2017 came from 5 countries: the Syrian Arab Republic (6.3 million), Afghanistan (2.6 million) and South Sudan (2.4 million), Myanmar (1.2 million), and Somalia (986,400). The top 5 countries of departure in 2017 by the number of people receiving assistance for resettlement, relocation and humanitarian acceptance were Lebanon, Turkey, Greece, Afghanistan and Italy (UNHCR, 2018).

Among these, the most notable case is a relative surge in irregular migration flows into the region. For example in 2015 over 1 million people arrived in Europe by sea (IOM, 2015). Since 2000, more than 60,000 migrant deaths (since 2014, more than 4,000 fatalities annually) have been recorded globally but, it represents only a minimum estimate because the majority of migrant deaths are unrecorded (Migration Data Portal, 2019).

In the following sections, the issue of taxation of international arms trade is discussed with the aim of making a contribution from the economic field to the solution of this humanitarian drama.

3. The International Arms Trade Tax?

The International Arms Trade Tax (sometimes called a Weapons Tax or a Gun Tax) has aroused interest in the political arena. Its supporters include a number of politicians and influential theoreticians in areas related to developmental problems (Brzoska, 2004a: 150). However, this tax appears to be not only one of the least well developed proposals but also one of the least likely to be implemented ones (Bird, 2014: 25).

Many interrelated objectives can be seen in these proposals on arms trade tax. The main target is to increase the cost of arms trade by imposing taxation which will then reduce the amount of arms transactions and expenditure on imports of arms and increase the revenue of international funds that can, in return, be used to compensate those who have suffered from armed conflicts (Brzoska, 2004a: 151; Brzoska, 2017a: 1; Brzoska. 2017b).

The five biggest exporters of arms in 2012–2016 were the United States, Russia, China, France and Germany and, the five biggest importers were India, Saudi Arabia, the United Arab Emirates

(UAE), China and Algeria (Fleurant, Wezeman, Wezeman & Tian, 2017: 1). According to SIPRI, the financial volume of the arms trade was estimated at about 374.8 billion in 2016, so even a relatively low tax rate imposed, for instance 10 %, could cover all the costs of "United Nations Peacekeeping Fund" which was $7,8 billion for the fiscal year of 2016-2017 (Brzoska, 2017b).

However, besides important methodological problems, there are objections to the taxation of arms. It is thought that this tax will be shifted to the underdeveloped countries where wars take place and that tax cannot be processed due to problems of accountability of these low-income countries and it is also considered that application of such a tax will rationalize the high amount of arms trade (Brzoska, 2004a: 152 & Brzoska, 2017a: 1).

4. An Alternative: A Quasi-Tax?

Nowadays, the analysis of the relations of the states with the arms industry shows the existence of a complementary structure between them. In particular, the military-industrial complex affects the state's policies for the creation the necessary demand for military equipment in order to guarantee profit for the arms industry (Mann, 1987: 44 and Shaw, 2002). It should also be noted that the military industrial complex forms reciprocal links also with other producers for the production of by-product regarding their industry. Furthermore, monopoly capital of the military-industrial complex is able to direct the state's economic policies (Kidron, 1967). The exportations of military-industrial complex are supported through direct subsidies, marketing subsidies, operational support and initial research and development allowance (Brzoska, 2004a: 163-165).

This report also draws attention to preferential financial support in the form of market-based financing and contingent assistance provided by export credit agencies to arms industry, directly and indirectly. Financial support for arms trade rejected by international financial institutions is provided by export credit agencies which undertake potential losses for arms exporters. Export credit-backed loans that are provided to developing countries create the most important source of debt in these countries and raise the level of their contingent liabilities. In addition, the scope of conditional aid is also high in the area of military assistance, covering the cost of imported weapons or military services (Uymaz, 2018: 64-68).

In this context, the intricate relationship between the arms industry and the governments shows that the exporting state should also be included in the analysis in order to limit the negative effects of the arms industry.

An interesting alternative can be a quasi-tax in the form of membership assessments of international organizations in which case the arms exporting government would be "taxed" by international organizations. (Brzoska, 2017b). As the quasi-tax doesn't have any effect on the demand for arms trade, it would also mean that this practice would cause greater revenues than arms trade tax (Brzoska, 2017a: 3).

In this context, this paper recommends that arms exporting companies should be taxed and in addition the arms exporting countries should also pay a membership fee in the form of quasi-tax. For example, the company X, which exports arms to Syria, must pay international arms trade tax, and also the country of the company X must pay a fee to an international fund as a cost of

supporting arms trade. Income from both channels can be transferred to a fund managed by an international organization, like the International Migration Administration, and used to economically compensate forcibly displaced people around the world.

5. Conclusion

One objective of this paper is to theorize the methods for the war industry to compensate the consequences of the use of its output, in other words, to be responsible for the economic recovery of the victims of the war. In the framework of the neoclassical theory, the paper aims to internalize the negative externalities of the weapons industry.

To say that there is a direct relationship between the development of the war industry and the increasing number of wars is to ignore the other causes of the wars. Nevertheless, “the supply mechanism of the war industry creating its own demand” can be followed by the support of the state, providing purchase guarantee. In this context this paper offers ways to decrease arms trade and generate some revenue by the taxation of the international arms trader and arms exporting countries. In relation with the mainstream economics, an offer of taxing both arms industries and the arms exporting governments and collecting the revenue in an international fund to use it in the compensation of forcibly displaced people can be considered to be an academic contribution. However, it is quite possible that this proposal will remain only as an offer without being realized like other global tax proposals made in the history. Reasons for this have to be interpreted by the analysis of the capitalist system and the economic structure that have caused the crisis of today's tax state.

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THE RAMSEY TAX COMPONENT IN THE TERMS OF GASOLINE TAXATION IN TURKEY

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Abstract

Ramsey who took the first foundations of optimal tax theory and handled optimal consumption taxes analytically for the first time, discussed how taxation rules should be in order to ensure efficiency in resource allocation and to minimize loss of efficiency. In this respect, he put forward the Inverse Elasticity Rule. The Inverse Elasticity Rule refers to tax lower than the goods with a high change in the amount of compensated demand due to taxation and higher than the low changes in the amount of compensated demand. Accordingly in this study, price elasticity of gasoline demand for Turkey was estimated by the Statıc Ordinary Least Square and the Dynamic Partial Adjustment Model for the period 2006-2017. According to the Dynamic Model, the price elasticity of the short-term gasoline demand is inelastic and according to the Inverse Elasticity Rule, gasoline is favorable in terms of obtaining higher government income. In this case gasoline may be subject to higher taxes to obtain government revenue by The Inverse Elasticity Rule as the price elasticity of gasoline demand in Turkey for the period 2006-2017 is inelastic. In this context Ramsey Tax Component that allowing the possibility of gasoline consumption being a weak substitution of leisure time and situated in the optimal gasoline tax was calculated for Turkey. The Ramsey Tax Component is expressed as a component based on the Inverse Elasticity Rule and calculated on the basis of the idea that goods are which lower change in the amount of compensated demand resulting from taxation provides higher government revenue. In this direction, Ramsey Gasoline Tax Component calculated for the year of 2017 for Turkey. Calculated Ramsey Gasoline Tax Component was determined to be less 2.46 times from the gasoline Excise Tax amount taken by the government.

Keywords: Inverse Elasticity Rules, Ramsey Tax Component, Gasoline Demand, Elasticity

JEL Code: C13, H20, R48

1. Introduction

Ramsey (1927) demonstrated the taxation rules of indirect taxes in order to ensure efficiency in resource allocation and to minimize the loss of efficiency. Debates on optimal excise tax have improved in direction whether to be optimal when the indirect taxes have a single ratio (lump sum tax) or differentiated rates (Heady, 1993: 384). Ramsey (1927) suggested that differentiated tax rates are optimal because the single rate tax is not optimal because it leads to loss of efficiency (Sorensen, 2007: 385). In this respect, Ramsey (1927) developed the Rule of Inverse Elasticity. Accordingly, it has been tried to find the optimal consumption taxes that maximize the benefit function of the representative individual. According to the Inverse Elasticity Rule, An

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equal amount of demand will be reduced from all goods by lower taxes than the goods with high change in the amount of compensated demand and by higher taxes than the goods with low change. Thus efficiency losses can be minimized.

The aim of this study detects Ramsey Tax Component for Turkey that taken to obtain government income. In this regard firstly made gasoline price elasticity estimate for Turkey and has been found to be inelastic in the short term of the price elasticity of demand for gasoline. The use of short or medium term elasticity values in tax calculations is proposed by Lin and Prince (2009). In thisa direction, Ramsey Gasoline Tax Component that developed to obtain government income by Parry and Small (2005) calculated for Turkey by used 2017 data.

2. Literature

Parry & Small (2005) calculated the optimal gasoline tax (OGT) for UK and the United States and then compared it levied by government. Lin & Prince (2009) calculated OGT by developed Parry & Small (2005) for California adding the external dependence variable of oil as externality. Ley & Boccardo (2009) discussed the appropriateness of taxation of engine fuels for the OECD, BRICs and South Africa in the framework of the OGT developed by Parry and Small (2005). Lin & Zeng (2014) calculated the Pigovian Tax Component by developed Parry & Small (2005) and taked over externality for China. Sarabia & Trillo (2014) predicted OGT for Mexico. Williams (2005) examined the optimal taxation of gasoline in heterogenous consumer and existing adjustments of pre-taxes considering efficiency and equality.

3. The Price Elasticity of Gasoline Demand and the Prediction of VkMT Elasticity

3.1. Static Model

Demand elasticity is extremely important to measure the impact of a tax on consumer. In this study a basic log-log model was first used to estimate the elasticity of gasoline price and income.

$$lnD_t = \beta_0 + \beta_1 lnP_t + \beta_2 lnY_t + e_t \quad (1)$$

To represent the year t, D_t indicates the per capita domestic gasoline sales annual per liter, P_t annual average real gasoline price (2010 fixed price), Y_t annual per capita disposable income, e_t is zero average error.

The domestic sales volume of gasoline [1] (tonnes) was obtained from the Energy Market Regulatory Authority Petroleum Market Annual Sector Report. The amount of gasoline was converted to liters and was divided into population data from World Bank and thus the amount of gasoline per capita was reached. The nominal price of gasoline was obtained from the Statistics

[1] 95 octane unleaded gasoline is handled.

Institute of Turkey. According to 2010 fixed dollar prices, it was converted into real gas price. Household disposable per capita income were obtained from the Turkey Statistical Institute. According to 2010 fixed dollar prices, real household disposable per capita income was obtained. Due to limited data, analysis was performed with annual series. Since the household disposable per capita income is produced annually, it can only be estimated with annual data, cannot monthly or quarterly data.

Table 1. OLS model for Turkey: 2006-2017
Dependent Variable: Logarithm of the difference of Turkey's gasoline sales volume

$\boldsymbol{\beta_1}$	-0.48*** (0.079)
$\boldsymbol{\beta_2}$	-0.19** (0.062)
$\boldsymbol{\beta_0}$	5.88*** (0.048)
Number of Observation	12
R2	0.93
***%1**%5*%10 expresses significance levels. Robust standard errors are given in parenthesis.	

According to the static model, the price and income elasticities of gasoline demand are estimated in the long term. The results are shown in Table 1. Long term price elasticity was estimated to be -0.48.

The variables were analyzed using the Augmented Dickey Fuller (ADF) Test. According to the test results lnP_t and lnY_t variables were found both at level and in the trend. The lnD_t variable was found to be rooted in the trend. So the first difference was determined and the stability was tested and found to be stable at both the level and the trend.

3.2. Dynamic model: partial adjustment model

The dynamic model assumes that the gasoline demand cannot suddenly respond to changes in gasoline price and income but gradually converges towards long term equilibrium. D_t' is represented the demand for equilibrium gasoline that is desired or directly observed. A pattern can be obtained as follows:

$$lnD_t' = \beta_0 + \beta_1 lnP_t + \beta_2 lnY_t + e_t \quad (2)$$

The correction at the balance demand level is expressed as follows:

$$lnD_t - lnD_{t-1} = \delta(lnD_t' - lnD_{t-1}) \quad (3)$$

δ>0 and δ correction speed is given. When the number 3 equation is placed within the number 2 equation and the necessary arrangements are made such as in the equations 4 and 5, the number 6 equation is obtained. This equation gives the dynamic model. The acquisition of a dynamic model can be expressed as follows:

$$lnD_t - lnD_{t-1} = \delta(\beta_0 + \beta_1 lnP_t + \beta_2 lnY_t + e_t - lnD_{t-1}) \quad (4)$$

$$lnD_t = \delta\beta_0 + \delta\beta_1 lnP_t + \delta\beta_2 lnY_t + \delta e_t - \delta lnD_{t-1} + lnD_{t-1} \quad (5)$$

$$lnD_t = \delta\beta_0 + \delta\beta_1 lnP_t + \delta\beta_2 lnY_t + (1-\delta) lnD_{t-1} + \delta e_t \quad (6)$$

$\delta\beta_1$ and $\delta\beta_2$ coefficients in the dynamic model give the short term price and income elasticity. It has generated consistent estimation with OLS because there was not autocorrelation in the error term (δe_t). The results are shown in Table 2. The price elasticity of gasoline demand in the short term was estimated to be -0.18 when one year delayed estimation considered. According to İnverse Elasticity Rule, this result is expressed that gasoline to be inelastic and can be addressed in terms provided government income in Turkey.

Table 2. Partial adjustment model for Turkey: 2006-2017
Dependent Variable: Logarithm of the difference of Turkey's gasoline sales volume

lag length	no lag	1 year	2 year
$\boldsymbol{\delta\beta_1}$	-0.48*** (0.079)	-0.18** (0.051)	-0.19** (0.072)
$\boldsymbol{\delta\beta_2}$	-0.19** (0.062)	0.35*** (0.040)	0.32*** (0.077)
$(\boldsymbol{1-\delta})$	-	0.51*** (0.139)	0.12* (0.055)
$\boldsymbol{\delta\beta_0}$	5.88*** (0.556)	-3.33*** (0.380)	-2.95*** (0.698)
Number of Observation	12	10	9
$\boldsymbol{R^2}$	0.93	0.92	0.75
Adjustment speed (δ)	-	0.49	0.88
***%1**%5*%10 expresses significance levels. Robust standard errors are given in parenthesis. The results were estimated based on OLS			

3.3. The estimation of VkMT elasticity

VkMT[1] price elasticity shows how the change in price of gasoline as percentage changed the vehicle mileage as percentage. The results are given in Table 3.

[1] Vehicle kilometers travelled

Table 3. VkMT elasticity Estimation with OLS model for Turkey: 2006-2017
Dependent Variable: Logarithm of the VkMT per capita for Turkey

$\boldsymbol{\beta_1}$	-0.33** (0.117)
$\boldsymbol{\beta_2}$	0.83*** (0.126)
$\boldsymbol{\beta_0}$	-0.70 (1.214)
Number of Observation	12
R2	0.87
***%1**%5*%10 expresses significance levels. Robust standard errors are given in parenthesis.	

VkMT price elasticity (β_1) was estimated to be -0.33. 1% increase in the price of gasoline reduces VkMT by 0.33%. VkMT expenditure elasticity shows how the change in household income as percentage changed the vehicle mileage as percentage. VkMT expenditure elasticity (β_2) was estimated to be -0.83. 1% increase in the household income increases VkMT by 0.83%.

4. Ramsey Tax Component

Ramsey Tax Component (RTC) that taked part in OGT developed by Parry and Small (2005) and allowed gasoline to be a poor subtitution leisure time was calculated for Turkey. RTC is as follows:

$$\text{Ramsey Tax} = \frac{(1 - \eta\text{mı}) * \varepsilon\text{ll}}{\eta ff} * \frac{tl * (qf + tf)}{1 - tl}$$

It refers to ηmı VkMT expenditure elasticity, εll labor supply elasticity, ηff price elasticity of gasoline demand, tl tax rate on labor income, qf producer price of gasoline, tf tax amount on gasoline consumption, $1 - tl$ net fee. The values detected for Turkey defined the parameters are given below:

Price elasticity of gasoline demand: $\boldsymbol{\eta ff}$ **-0.18**

The price elasticity estimation of gasoline demand was realized with the annual data for the years 2006-2017 using the dynamic model.

VkMT expenditure elasticity: $\boldsymbol{\eta\text{mı}}$ **0.83**

VkMT expenditure elasticity estimation was realized with the annual data for the years 2006-2017 using OLS model.

Labor supply elasticity: εll **0.06**

Labor supply elasticity was used by Aykaç (2016) for Turkey and estimated for between 2003-2011.

Gasoline producer price: qf **0.54$/liter**

The product prices used for the years 2015-2017 have been transformed at the fixed prices of 2010 to 2017 real dollar exchange rate. The average of product prices for 2015-2017 was taken.

Table 4. Average price formation of gasoline ($/liter)

Product	Year	Product Price	Wholesaler Marjin	İncome Share	Total of Distributor and Dealer Marjin	Total Tax	Final Sale Price
95 octane unleaded gasoline	2017	0.66	0.029	0.00118	0.20	1.36	2.24
	2016	0.46	0.017	0.00114	0.19	1.25	1.92
	2015	0.50	0.021	0.00108	0.17	1.22	1.91

Source: Energy Market Regulation Board (EMRB)

Tax amount on gasoline consumption : tf **1.01$/liter**

The tax amount of gasoline consumption has been reached from Energy Market Regulation Board 2017 Annual Sector Report. This amount has been converted by 2017 real dollar exchange rate with fixed prices in 2010 (EMRB, 2017: 67).

The calculated RTC and values of other parameters used to calculate the RTC are given in Table 4. The RTC calculated based the following values of parameters for Turkey was estimated to be $1.57/liter.

Table 5. Ramsey Tax Calculation for Turkey

Parameters	Values
VkMT expenditure elasticity(ηmı)	0.83
price elasticity(ηff)	-0.18[1]
Labor supply elasticity(εll)	0.06

[1] Negation is not taken into account in the calculation.

Parameters	**Values**
Tax rate on labor income (tl)[1]	0.8238
Gasoline producer price(qf)	0.54$/liter
Tax amount on gasoline consumption[2](tf)	1.01$/liter
Net fee(1-tl)	0.1762
Government spending share in national output(αg)[3]	0.8410
Gasoline production share in national output(αf)[4]	0.0092
Government spending(G)	339,668,230,277$
Labor income(L)	403,871,562,046$
Taxable gasoline sales(F)	6,879,051,946$
Ramsey tax component	**0.41$/liter**
*The calculations are based on 2017 data	

5. Conclusion

According to the results of the analysis for Turkey price elasticity of gasoline demand was determined to be as inelastic in short term. According to the Inverse Elasticity Rule, goods with inelastic compensated demand should be taxed at a higher rate. Thus higher tax revenues will be obtained. According to the analysis it is determined that gasoline have inelastic demand for Turkey. For this reason gasoline has been found to be favorable in terms of obtaining high government revenue. In this regard Ramsey Gasoline Tax Component developed by Parry & Small (2005) and used to obtain the government revenue has been calculated $0.41/liter. According to the Energy Market Regulatory Authority 2017 Report, The Excise Tax amount for 2017 is $1.01/liter by real dollar exchange rate. The total tax amount received from gasoline is $1.36/liter by the real dollar exchange rate. It was determined that the calculated Ramsey Gasoline Tax Component was 2.46 times less than the Excise Tax received by the government and 3.32 times less than the total tax received from gasoline.

Calculated Ramsey Gasoline Tax Component calculated by using elasticities determined as of 2006-2017 years. Therefore the Ramsey Gasoline Tax Componentcalculated with predictable elasticities for different years may be different. Further studies are recommended for other types of fuel.

[1] αg – tf/qf*αf
[2] Excise tax
[3] (G/L)
[4] (F/L*qf)

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AN ANALYSIS ON THE RELATIONSHIP BETWEEN FUEL TAXES AND FUEL CONSUMPTION AND CURRENT DEFICIT: A CASE OF TURKEY

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Abstract

Obtaining energy appears to be a high-cost need almost all over the world. For specific countries, energy is a source of income rather than being a cost, for the reason of they have geographic or technological advantages. Energy is an income factor not during the production stages, but in the consumption stages through taxes for the other countries like Turkey. Among all energy sources, this situation is most clearly seen in fuel.

Both in Turkey and many countries in the world, high-rate taxes on fuel are received. So much so that these taxes are received on fuel in many places even exceeds the cost of obtaining fuel. And this affects flow of the economy from many aspects. For this reason, how the taxes on fuel affect fuel consumption and the current deficit, and the causality relationship between those, are examined in this study with the case of Turkey.

At the result of this study, it has been determined that there is a two-way relationship between the current deficit and fuel taxes, and a one-way relationship between fuel consumption and current deficit. Therefore, a change in current deficit is a reason for a change in fuel taxes; likewise, a change in fuel taxes is a reason for a change in current deficit. In addition to this, a change in fuel consumption is a reason for the change in current deficit. Any relation was not determined for the other cases.

The results were obtained by the help of Granger Causality Tests. The data set was taken from Central Bank of the Republic of Turkey, Turkish Statistical Institute, Energy Market Regulatory Authority, Revenue Administration and Petroleum Industry Association databases covering the years of 1996-2017.

Keywords: Fuel Taxes, Current Deficit, Fuel Consumption, Granger Causality Test.

JEL Code: H20, H71, Q43

1.Introduction

The relationship between energy consumption and economic growth has recently become an interesting area for economists and politicians. The relationship between energy consumption and economic growth or energy consumption and GNP have become frequently examined issues (Kwakwa, 2012: 34). In this context, a special distinction of energy consumption was examined

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under the heading of fuel, and the economic growth was examined under the heading of current account deficit in this study.

Fuel consumption is a very good tax item for the authorities due to its low demand elasticity. In fact, the taxes on fuel can be several times more the cost of obtaining fuel. Fuel energy is one of the most important energy sources for motor vehicles, ships and aircrafts; and for ecological, geopolitical, economic and political reasons, it has such a great place in taxation.

Thus, the main objective of the study will be to analyze whether the high taxes on fuel oil affect the current account deficit of Turkey, a country that consumes fuel and, therefore, imports energy, and whether there is a causal relationship between them.

2. Collection of Tax on Fuel

With the Special Consumption Tax Law, taxes have started to be collected under the single roof from the manufacture and import of motor vehicles, to tobacco and tobacco products, alcoholic beverages, petroleum and petroleum products, solvent products, electrical appliances and luxury goods (Tülümçe & Özpençe, 2014: 281). Therefore, with the new tax law, different indirect taxes on fuel oil have been repealed and SCT and VAT have been started to be applied as a substitution.

Table 1. Fuel Sample Price Formation

Description of the calculation	**Identifier**	**Calculation**
Duty Free Refinery Price	a	2,1
SCT:	b	2,37
EMRA Share	c	0,03
Total Refinery Price w/o VAT	d=a+b+c	4,5
Refinery Output VAT Load	e=dx%18	0,67
Total Warehouse Selling Price	f=d+e	5,17
Distribution Company and Dealer Profit (12%)	g=dx%12	0,54
VAT on Fuel Dealer After Sales	h=(d+g)x%18	0,91
Total Retail Price	i=d+g+h	5,95
Total Tax Burden	j=b+c+h	3,31
Duty Free Refinery Price	J/i	**0,55 (%55)**

Source: (EPDK, 2018), (Kantarcı, 2018: 233), Calculation was made by the author.

While the final price of the fuel is generated in Table 1, an add-on is made over many items based on duty-free refinery price and the consumer sales price is formed accordingly. The remarkable point here is the fact that VAT is based on the calculation of the tax base resulting from the addition of SCT and EMRA Share. In other words, the tax's tax is collected.

The EMRA reports show that Turkey has one of the lowest tax rates with a tax rate of 54.92% within the European Union member countries (for non-leaded gas 95 octanes). This rate is lower than the EU 28 countries weighted average with a rate of 60.18%, lower than Italy with 64.54% and lower than Germany with a rate of 63.18% (EPDK, 2018).

3. Methodology and Empirical Results

The causality relationship between two or three variables is determined using Granger Causality Method. This method shows the existence and direction of causality relationship between variables (Granger, 1969: 428). Therefore, the taxation of fuel in Turkey, the fuel consumption and the causality relationship between the current deficit will be tested using the Granger Causality Test. The data set was acquired from Central Bank of the Republic of Turkey, Turkish Statistical Institute, Energy Market Regulatory Authority, Revenue Administration and Petroleum Industry Association databases covering the years between 1996-2017. The stability of the variables was tested before the relationship between these variables was established. The ADF test, formulated by Dickey and Fuller, will be used for the stability test (Dickey & Fuller, 1979). The delay length was found to be 4 and the findings obtained from the test are shown in Table 2.

Table 2. ADF Test, Data Level Representation.

Variables	Data Level		
	Constant	With Constant And Trend	With No Constant And Trend
AUAV	3.347696 *1.0000**	-0.246801 *0.9867**	7.031123 *1.0000**
AT	-1.920642 *0.3161**	-2.610056 *0.2801**	0.724499 *0.8618**
CA	-1.649697 *0.4409**	-3.005149 *0.1539**	-0.567520 *0.4592**

Abbreviations: AUAV:Fuel Taxes, AT:Fuel Consumption, CA:Current Deficit .
*** :** Prop (Forecast) value

As seen in Table 2, variables are constant at the data level; and are not significant at 5% significance level in with constant/trend and without constant/ trend forms. This shows that the variables are not stable at the data level.

Table 3. ADF Test, First Degree Difference

Variables	First Order Differences		
	Constant	**With Constant And Trend**	**With No Constant And Trend**
AUAV	-3.382578 ***0.0243****	-5.338858 ***0.0019****	1.067926 *0.9183**
AT	-2.032174 *0.2716**	-2.627872 *0.2737**	-1.967905 ***0.0495****
CA	-5.399861 ***0.0003****	-5.249655 ***0.0023****	-5.417894 ***0.0000****

When the first degree differences of the variables are taken, it is seen that the series become stable. When Table 3 is examined, it is seen that when the first degree differences of the variables are taken, They are significant at 5% significance level, meaning that the variables are first-degree stable.

Once the variables became stable, the model was established as follows (Granger, 1969: 436).

$$AUAV_t=\sum_{i=1}^{m} \alpha_i AUAV_{t-i}+ \sum_{j=1}^{m} \beta_i AT_{t-j}+ \sum_{i=1}^{m} \delta_i CA_{t-1}+ \epsilon_t$$

$$AT_{t-j}=\sum_{i=1}^{m} \partial_i AT_{t-j}+ \sum_{j=1}^{m} \vartheta_i AUAV_{t-j}+ \sum_{i=1}^{m} \rho_i CA_{t-1}+ \epsilon_t$$

$$CA_{t-1}=\sum_{i=1}^{m} \varphi i CA_{t-i}+ \sum_{i=1}^{m} \omega_i AUAV_{t-j}+ \sum_{i=1}^{m} \aleph_i AT_{t-j}+ \epsilon_t$$

Granger Causality Test was performed once the model was established. The empirical results obtained from the test are shown in Table 4.

Table 4. Granger Causality Test Result

Dependent Variable	Zero Hypothesis (H_0)	Chi-Square Test	Estimate Value	Decision	Conclusion
AUAV	AT is not the Granger cause of AUAV	1.832271	0.4001	Confrimed	AT is not the Granger cause of AUAV
	CA is not the Granger cause of AUAV	10.87214	**0.0044**	Refused	CA is the Granger cause of AUAV
AT	AUAV is not the Granger cause of AT.	4.850810	0.0884	Confrimed	AUAV is not the Granger cause of AT.
	CA is not the Granger cause of AT	1.264128	0.5315	Confrimed	CA is not the Granger cause of AT

CA	AUAV is not the Granger cause of CA	8.637451	**0.0133**	Refused	AUAV is the Granger cause of CA
	AT is not the Granger cause of CA	6.496542	**0.0388**	Refused	AT is the Granger cause of CA

According to the findings obtained from the empirical model, when the dependent variable was the taxes on fuel, since fuel consumption was not at 5% significance level, it was not significant; and the current account deficit was significant at 5% significance level. While the dependent variable was fuel consumption, a result could not be achieved at the 5% significance level for both the taxes on fuel and the current account deficit. When the current deficit was the dependent variable, a result was achieved at the level of 5% significance level for both the taxes on fuel and fuel consumption. Thus, as a result of the model, a two-way Granger Causality relationship was determined from the current account deficit to the taxes on fuel and a two-way Granger Causality relationship was also determined from the taxes on fuel to the current account deficit; and a one-way Granger Causality relationship was determined from fuel consumption to the current account deficit.

4. Conclusion

In this study examining the effects of taxes on fuel consumption and current account deficit, empirical results were obtained for Turkey using the Granger Causality Test.

As a result of the study, it was determined that there is a two-way relationship between current account deficit and fuel taxes, and a one-way relationship between fuel consumption and current account deficit. In other words, a change in current account deficit is also the reason for the change in fuel taxes; likewise, a change in fuel taxes is the reason for the change in current account deficit. As for fuel consumption, a change in fuel consumption is the reason for the change in current deficit. No relationship was found for other cases.

Turkey is a country that imports energy. Turkey's energy import amount and current account deficit are very close. In fact, sometimes its energy import amount is even greater than its current account deficit. Therefore, the effect of fuel consumption on the current account deficit is a result parallel with the causal relationship obtained in the study. Moreover, one of the first attempts of the government to reduce imports was to increase the taxes against the increases in the current account deficit. These taxes are particularly for the areas that have a high impact on the current account deficit and affect the taxes on the fuel sector, which has a high share in imports. Therefore, the fact that a change in the current account deficit affects the taxes on fuel and that the taxes on fuel affect the current account deficit strengthens the parallelism between the theoretical results in the study and the results in practice.

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THE EFFECTS OF THE WEALTH TAXES ON INCOME DISTRIBUTION IN TURKEY

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Abstract

Ensuring fair distribution of income among individuals is one of the primary objectives of public fiscal policy in every country. Taxes have an impact on the second income distribution. In particular, increasing rates of direct taxes have a positive effect on income redistribution. The more fair a tax structure in a country, the more will be tax justice. One of the direct taxes is wealth taxes. The share of national income and wealth tax in Turkey is around four per thousand by the year 2017. The aim of the study is to examine the effect of tax on property tax on personal income distribution. In this study, the TURKSTAT Income and Living Condition Micro-Data Set (2017) was used. In case households do not pay motor vehicles tax and real estate tax, the median income per capita among the richest and poorest income groups is estimated 9,18 times. In case of payment of these taxes, it is decreased to 9,15 times. It implies property taxes have a limited effect on income redistribution. The reasons for the limited impact on the redistribution of income of wealth taxes in Turkey, the value of the real estates such as building, do not to reflect the real value of, low tax collection rates, tax exemptions, exemptions can be.

Keywords: Income Distribution, Tax justice, Wealth Taxes, Property tax, Motor Vehicle Tax.

JEL Code: K11, K34, H21

1. Introduction

Tax policies are of great importance in the provision of justice in income distribution. The government draws a portion of the resources in proportion to the incomes, expenditures and wealth of the economy through the tax mechanism. In addition, the state withdraws values from the economy through tax, and transfers through the public spending to the economy. Undoubtedly, distribution policies have a great importance in fair distribution of income. In the study, wealth taxes are examined as property tax and motor vehicle tax. Inheritance tax on the transfer of wealth were excluded from the study.

2. The Relation of Taxes on Wealth and Distribution of Personal Income

Income distribution types are personal income distribution, functional income distribution, sectoral income distribution and regional income distribution.Personal income distribution;

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shows how national income is shared among people who make up the population. In this study, the effects of personal income distribution and wealth taxes on this distribution will be examined. There is a close relationship between income inequality and per capita income. Income inequality cannot be completely eliminated. Therefore, it is accepted that thesecondary income distribution resulting from the intervention of the state is more equitable than the primary distribution (Erkul and Erkul, 2019: 19). The power to pay taxes undoubtedlyshows income, spending andwealth.Therefore, tax policies aim to provide income (for income-generating purposes) as well as income distribution (Karabulut and Şeker, 2018: 1053). For a more equitable distribution of income; It is important to pay taxes, abilityto pay power (Demir, 1018: 47).

Wealth consists of the accumulation of revenue and is a static concept that refers to the stock status in relation to its assets. Inequality in income distribution in emerging economies is also high in the distribution of wealth. In most cases the level of wealth inequality of countries is twice as high as the income level (Murphy, R., Moreno-Dodson, B., and Zolt, E. M. 2017: 2). However, the tax policies implemented by countries have an effect of alleviating inequality in the distribution of wealth (Türk, 2007: 322). The rates of wealth taxes, which are the normal and permanent income source in terms of budget, and the tax burden on taxpayers remains low in Turkey (Öncel, Kumrulu and Çağan, 2008: 325). Some authors claims that wealth is not taxed exactly and there are some efforts on the wealth-like taxation in Turkey (Erol, 2012: 377).

Income and expenditure taxes are applied in order to realize the fiscal function. Wealth taxes are applied in order to realize social goals An important purpose of wealth taxes is to provide justice and equality in taxation and thus justice in income distribution (Ömür and Gerçek, 2017: 197). The tax system has a great effect on reducing inequalities in income and wealth distribution. The effect of taxes on the society is changing according to the indirect tax and direct taxes. In the case of a country's tax structure weighted by indirect taxes, it is widely estimated that tax burden affects people with lower income levels. On the contrary, in a tax system where direct taxes are predominant, the tax burden increases in people with high income levels (Akdoğan, 2017: 499). As the income tax rate has an increase , the lower income groups pay less tax, and the higincome groups pay more tax. Therefore, post-tax income is expected to improve in favor of persons in the low-income group (Pınar, 2015: 297). Indirect taxes do not take consider of tax pay power. In other words, , consumers who have high consumption trends and low income levels pay high taxes, more than high income groupscompare with their income In order to overcome this injustice, the share of direct taxes in tax revenues should be increased (Eğilmez, 2016: 66). In the Turkish tax system, inheritance tax, which is one of the wealth taxes and it is classifed in the direct taxes. Inheritance tax is called ”there is tax name. But it does not exist itself” (Bilici, 2013: 183). It is the motor vehicle tax that has the largest share among the total tax revenues within the wealth tax system. The value of the vehicle in taxation, as well as cylinder volumes, number of seats, are take considered. The property tax, which is another wealth tax, is the second largest wealth tax that has an important share in wealth tax revenues. (Şener, 2007: 219). In Turkey, the share of total tax revenue of the estate tax is relatively low compared to EU countries. On the contrary, the share of motor vehicle tax in total tax revenues is high (Ömür ve Gerçek, 2017: 197). In 2018, the share of motor vehicle tax in total tax revenues was 2% in GDP (0,33%) (muhesebat.gov.tr). In 2017, the share of real estate tax in total tax revenues was 0.9% and the share in GDP was 0.2% (OECD, 2019). The value of automobile has been taken considered while

motor vehicle tax amount has been calculated, since 2018. It can be said that the new system is more fair (Kabakçı Karadeniz, 2018). Therefore, the share of motor vehicle tax in tax revenues may be expected to increase in the following years.

3. The Impact of The Wealth Taxes on Personal Income Distribution in Turkey

3.1. Data Set and Method

In order to determine the effect of wealth taxes on income distribution, the micro data set of 2017 was used. The micro data set includes motor vehicles tax and property tax, which households regularly pay. The per capita income is ranked from low to high and the households are divided into 10 equal groups. In the case of the payment and non-payment of the tax, the income gap between the richest 10th income group and the poorest 1st income group was compared in 10 income groups.

3.2. Findings of the Study

The difference between the income group and the poorest income group is 9,18 if the wealth taxes do not impose. In the case of the payment of these wealth taxes, the difference decrease to 9.15.

Table 1: Wealth Tax in Turkey (Real Estate Tax and Motor Vehicle Tax), Per Capita by Income Group (2017)

	Per Person Income Tax Paid (TL)	In the event of not paying the wealth tax, Per capita income (TL)
1 (Poorest)	5625	5940
2	8336	8774
3	10523	11047
4	12573	13103
5	14684	15463
6	17224	18039
7	20252	21359
8	24557	25745
9	31800	33479
10 (Richest)	51494	54540
The Richest Groups' Income/ Poorest Income Group	9,15	9,18

Source: TURKSTAT, Income and Living Conditions Survey were calculated by the author from the 2017 Micro Data Set.

*1 refers to the poorest income group and 10 to the richest income group.

It can be said that wealth taxes in Turkey almost have no redistribution effect. The low share of these taxes in GDP may be an indication that wealth is not taxed enough.

4. Conclusion

The wealth taxes in GDP is low in Turkey. There may be many reasons why this share is low in Gdp. These include motor vehicle tax and real estate tax exemption and exemptions, low collection rates. Frequent tax amnesties can be reduced tax collection rates. In addition, the taxation value of propertyare usuaaly belowthe real value of real estate . It causes decrreasing wealth taxes.In this study It is found that real estate tax and motor vehicle tax had a very limited corrective effect on the redistribution of income, in favor of the low income groups. The suggestions for providing corrective effects on income redistribution in wealth taxes are presented below.

a)The methods need to be developed to determine the real value of wealth (especially real estate), which is the basis for the calculation of the tax. It is a positive development to consider the values of automobiles in the taxation of motor vehicles with the arrangement made in motor vehicles tax in 2018 (Kabakçı Karadeniz, 2018).

b) Exemptions and exemptions in real estate tax and motor vehicles tax should be reviewed and reduced (Kabakçı Karadeniz, 2016).

c) New security measures should be developed to increase the tax collection rate.

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DETERMINATION OF SOCIETY'S PREFERENCES ABOUT OPTIMAL TAXATION: THE CASE OF TURKEY*

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Abstract

Optimal taxation is a normative field of study that develops concerning welfare economics. Welfare economics focuses on the desirability of alternative policy proposals by society and aims at maximizing social welfare. From this point of view, optimal taxation also explores the desirability of various tax policies by society. Optimal taxation is defined as the taxation that best reflects the choice of society between efficiency and justice, as well as achieving sufficient income to meet the need for public finance. The relationship of change between efficiency and justice makes it inevitable to establish an acceptable equilibrium between these two criteria. The equilibrium between efficiency and justice should be based on preferences of society. It is accepted that the tax policies applied for the preferences of society about taxation provide the best for social welfare. From this point of view, the aim of the study is to perceive the preferences of the society about taxation. This purpose has tested by a survey conducted in Turkey. The survey method was used in the research, and the data were included in the analysis through the Statistical Package for the Social Sciences (SPSS) package program. Correlation and regression analysis were performed in this context. As a result of the analysis, it was determined that preference of the society for optimal taxation was based on justice-based tax policies. Therefore, tax policies, which premise justice in taxation and aim to reduce inequality in income distribution, are considered as optimal.

Keywords: Optimal Taxation, Efficiency, Justice, Correlation and Regression Analysis

JEL Code: H21, D63, C83

1. Introduction

Welfare economics is a branch of science that develops policy recommendations within the normative framework and focuses on what should be the appropriate policy recommendations for social welfare. In this context, the aim of welfare economics is expressed as maximizing social welfare. Welfare economics, which takes into account the social welfare maximization as main starting point, emphasizes that policy proposals should serve justice and efficiency in resource allocation. In other words, welfare economics implies that the level of social welfare will be

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determined by the criteria of efficiency and justice. Here, the efficiency in resource allocation refers to pareto efficiency. Pareto efficiency refers to the situation in which an individual's welfare cannot be improved without worsening the welfare of an individual in an economy (Little, 1957: 84). Justice in resource allocation refers to justice in the allocation that is shaped by the distributor justice. Justice in allocation is concerned with whether the factors and the distribution as a result of factors is fair.

There is an absolute substitution relationship between efficiency and justice, which are determinants of social welfare. This substitution is one of the basic dilemmas of welfare economics and therefore seeks an equilibrium between efficiency and justice. It is accepted that the equilibrium between efficiency and justice should be shaped in line with the preferences of the society. Optimal taxation, based on these views of the welfare economics, focuses on the effects of efficiency and justice criteria of taxation. In this context, it is investigated how a taxation can be made that can equilibrium the efficiency and justice and sensitive to the preferences of the society. As a matter of fact, tax policies designed in accordance with the preferences of the society have a great importance in terms of increasing tax compliance by reducing the resistance of individuals against tax. Therefore, the aim of the study is to determine the preferences of society for optimal taxation. In research model, it was tried to show whether the society wants to be based on efficiency based taxation or justice based taxation. A survey was applied to determine the preference of society for taxation in Turkey.

2. Explanations on Optimal Taxation

The seeking for optimal taxation in the context of welfare economics focuses on how appropriate taxation should be for social welfare. In this context, it is being investigated how a taxation that guarantees sufficient income for the public financing needs, minimizes the loss of efficiency and ensures a fair distribution of tax burden (Evans, 2012: 369). The trade off in efficiency and justice prevents that the taxes are serving both efficiency and justice at the same time. For this reason, it is tried to establish an acceptable equilibrium between efficiency and justice by society in the seek for optimal taxation (Hillman, 2009: 667). Optimal taxation, therefore, is defined as a taxation at a certain level of income, which best reflects the preference of society between justice and efficiency and maximizes social welfare (Stiglitz, 1994: 583).

In this definition of optimal taxation, two main objectives are confidential. These are “taxation to meet the need for public funding” and “taxation to ensure an acceptable balance between efficiency and justice”. The second aim is divided into two sub-goals as “ensuring efficiency” and “establishing justice”. Which of these sub-goals is more preferable is shaped according to the preferences of society. For these purposes, the criteria for optimal taxation can be explained as follows.

Taxation for financial purposes refers to the acquisition of tax income at a level sufficient for public expenditure (Howard, 2001: 157).The state needs public funding to perform its functions. The most important resource in public finance is taxes. In this direction, the main purpose of taxes is to provide financing of public expenditures. This situation, which expresses the main duty

of the tax, is not subject to much discussion in the seek for optimal taxation since it is defined in the budgets of the political process every year.

Efficiency-based taxation stresses that in an economy, taxes should be designed in such a way that the allocation of resources is distributed in Pareto activity conditions(Bohm, 1987: 83). The tax perceived as a cost element changes the relative price structure of goods and services. Thus, the pre-tax and after-tax price is decomposed, and accordingly the decisions and behaviors of the economic units change. These deflecting effects caused by taxation, disrupt resource allocation and cause loss of efficiency (Ebdon, 2005: 243). In this respect, optimal taxation tries to minimize this loss of income caused by tax. Studies on optimal taxation have generally focused on the loss of efficiency of taxes and developed recommendations for reducing it.

Justice-based taxation aims at obtaining a tax that takes into account the ability to pay of individuals and enables to reduce inequalities in income distribution (Musgrave & Musgrave, 1989: 218). Some segments of society are interested in the fair distribution of income or wealth, but remain insensitive to ensure efficiency in the economy (Bohm, 1987: 91). In such cases, justice-based taxation can give the best results in terms of welfare of society. Therefore, in addition to efficiency, justice is also considered in search for optimal taxation.

3. Methodology of Research

In the context of optimal taxation, studies are made to ensure efficiency and justice in taxation. While taxes serving the efficiency concessions from justice, taxes serving justice concessions from efficiency. In this case, it is desirable to create a tax structure that best reflects to the preferences of society between efficiency and justice with optimal taxation. The main research problem of the study is determined from this point. Within the scope of the study, an answer to question of "What criterion does the society prefer to implement optimal taxation?" is seeked and the methodology of the research is shaped by this main problem.

The model of the study is composed of four dimensions which are shaped by the theoretical literature. These are "taxation for financial purposes", "efficiency-based taxation", "justice-based taxation" and "optimal taxation". The research hypotheses to be tested depending on the model of the research are determined as follows:

H_1: Taxation for financial purposes is effective on optimal taxation.

H_2: Efficiency-based taxation is effective on optimal taxation.

H_3: Justice-based taxation is effective on optimal taxation.

The population of the research is constitute from real person income tax payers living in Turkey. Since it is not possible to reach the entire population due to time and cost constraint, the population is limited to the regions in Level 2 by the Classification of Statistical Region Units (NUTS). In this context, the research was conducted on the basis of real person income taxpayers in the provinces of NUTS Level 2. While sampling is done on the basis of provinces, percentage distribution of population and taxpayers are taken as basis. Based on the relevant population,

the number of 1200 samples was reached. Within the scope of the research, survey method which is one of the quantitative research techniques was used to reach the relevant sampling.

The data obtained by the survey method were analyzed by using SPSS 23 package program. For the scale used in the research, firstly, reliability analysis was applied to see to what extent the questions in the scale were consistent with each other and to what extent the scale (s) used reflect the related questions (Kayış, 2010: 403). On the other hand, exploratory factor analysis was performed to reduce the number of variables to less (Altunışık vd., 2012: 266). Correlation analysis was used to determine the relationship and power between the factors obtained and the regression analysis was used to determine the effect and direction between the factors (Sungur, 2010: 115; Altunışık vd., 2012: 233).

4. Conclusion

Within the scope of this research, which was conducted to determine the choice of the society between efficiency and justice in Turkey, internal consistency analysis was used to determine the reliability of the scales. As a result of internal consistency analysis, the scale was found to be reliable and consistent. Then, with the exploratory factor analysis, it was determined that the variables were collected under the dimensions and that the scale was suitable for factor analysis. According to the correlation analysis for determining the relationship between factors, a negative relationship was found between taxation for financial purposes and optimal taxation, but a positive relationship was found between efficiency-based taxation and justice-based taxation and optimal taxation.

In order to test hypotheses, a regression model has been established in which the optimal taxation is considered as an dependent variable, taxation for financial purposes, efficiency-based taxation and justice-based taxation are considered as independent variables. Based on this model, it was concluded that the participants mostly demanded justice-based taxation. However, it was concluded that a taxation for financial purposes would adversely affect the optimal taxation. On the other hand, efficiency-based taxation was found to have no statistically significant effect on optimal taxationBased on these results, hypotheses H_1 and H_3 were accepted and H_2 hypothesis was rejected. As a result, Turkish society thinks that a taxation that is appropriate to social welfare should be mostly justice-based and that the tax policies directed towards this would yield the best social results. Proceeding from these results, the tax policies applied in Turkey are to be designed and implemented suitable for justice-based taxation.

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INVITATION TO EXPLANATION OF VOLUNTARY TAX COMPLIANCE

Müge Seda ATEŞ[1]

Abstract

Some disagreements and differences of opinion may arise between taxpayers and tax administration due to taxation process or practices. A peaceful resolution of these disputes by the parties of taxation ensures the administration to gain the tax claims as soon as possible; additionally, it brings some advantages for the taxpayers and particularly it plays a vital role in ensuring voluntary tax compliance. "Invitation to explanation", which is one of the regulations for the resolution of disputes at administrative level, provides an opportunity for enhancing the voluntary tax compliance, which is defined as on time and in full meeting of the taxational liabilities by the taxpayers. With this implementation, which is resolved at the 370th article of the Tax Procedure Law, an opportunity is given to the taxpayers, who caused tax losses according to the preliminary detections applied by the competent authority demonstrating indications about tax loss, to make explanation before facing a criminal action, provided that tax audit or fixation transactions are not started and no notifications are made until the detection date. With this implementation, it is aimed at providing a decrease and a resolution of the disagreements between the parties of taxation at administrative process, ensuring a rapid and efficient taxation process, enabling the participation of the taxpayers in resolution of disagreements, and thus increasing the voluntary tax compliance.
In this study, the implementation of invitation to explanation, which is one of the administrative resolution methods, will be examined; firstly, invitation to explanation notion and its application in Turkish tax system will be clarified, and subsequently some assessments will be made about the implementations of invitation to explanation within the framework of the voluntary tax compliance.

Keywords: Tax Dispute, Administrative Solution Way, Invitation to Explanation, Voluntary Tax Compliance

JEL Code: H29, K34

1. Introduction

Taxation refers to a bilateral relationship, and time to time legal disputes may arise between the taxpayer and the tax administration regarding tax obligation. These disputes, which are referred to as tax disputes, are being tried to be resolved through administrative (peaceful) or judicial remedies.

One of the administrative remedies, such as regret and correction, correction of mistakes, penalty discount, compromise, which refers to the elimination of the disputes in the administrative stage, without resorting to the judicial authorities for tax is the invitation to explanation. The practice of invitation to explanation is a new type of implementation in terms of Turkish Tax Law, which gives the taxpayer the opportunity to explain the situation it is in, and

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is based on finding a solution with voluntary compliance of the taxpayer, during the process of identifying the transactions that are causing tax loss based on the signs detected by the competent authorities prior to tax audit. This practice is prescribed in the Article 22 of the Law on Amendment of Several Laws For Improving the Investment Climate and the Abolished Article 370 of the Tax Procedure Law No. 213.

In this study, it is aimed to examine the institution of invitation to explanation within the context of voluntary tax compliance. In this context, at first, the concept of invitation to explanation will be studied that is among the administrative remedies, subsequently, the institution of invitation to explanation will be analyzed in light of this information and within the scope of voluntary tax compliance.

2. The Concept of Invitation to Explanation

While "explanation" means explaining something, "invitation to explanation" means demanding explanation from the taxpayer in order to determine correctness of the signs of tax loss caused by the taxpayer (Bozdoğan & Çataloluk, 2018: 43). In other words, invitation to explanation is the demand for explanation from the taxpayer by the competent authorities, in case that these authorities determine external traces of possible tax loss (Buyrukoğlu & Toparlak, 2018: 58).

The concept of invitation to explanation entered into force with the Law No. 6728 published in the Official Gazette dated 09.08.2016 and numbered 29796, and has taken its place as a new administrative solution in the Turkish tax system with the regulation of the abolished Article 370 of the Tax Procedure Law No. 213 (Oktar, 2018: 425). According to the article 370 of the Tax Procedure Law, the taxpayers can only be invited to explanation if several conditions are fulfilled, such as, competent authorities have reached preliminary results that there is a tax loss; tax audit has not yet started; the case has not been sent to the valuation commission; no denouncement is made until the date of determination; in case there is a possibility of forged documents and documents with misleading contents, the amount for every document is not more that the determined level; no tax loss is caused as a result of tax evasion (Şenyüz et al., 2018: 292). If all these conditions are met, "The Explanation Evaluation Commission" sends the taxpayer a written invitation to explanation. Taxpayers are obliged to provide a written explanation within 15 days from the date of the notification. Those, who do not provide a written explanation to the relevant commission within this period, will not be allowed to benefit from the institution of invitation to explanation (Deloitte, 2017: 2).

As a result of the assessments with this institution, those taxpayers, who didn't cause tax loss won't be subject to tax audit or sent to valuation. And in cases of tax loss, taxpayers are protected from heavier sanctions by implementing discounted penalties under certain circumstances (the penalty for tax loss will be calculated as the 20% of the tax loss, in other words, the penalty for tax loss will be paid with 80% discount) (Doğan ve Kabayel, 2018: 59). In doing so, it is aimed to make tax audits more effective and efficient, to prevent unnecessary audit and valuation processes, to prevent taxpayers from facing unfair and unnecessary processes, to reduce disputes and to ensure a faster and more efficient taxation process, to ensure the participation

of taxpayers in the dispute resolution process and to increase voluntary tax compliance (Özmen, 2018: 73).

3. Invitation to Explanation within the Scope of Voluntary Tax Compliance

Voluntary tax compliance is defined as "the degree that taxpayers act in compliance to tax laws", and implies timely and complete fulfillment of tax liabilities by taxpayers (Şentürk, 2014: 131). Many other factors, such as income level and tax rates, audit possibilities, previous audits and tax penalties, moral and social dynamics, social and demographic factors, tax attitudes, subjective tax information and participation, the attitude of the tax administration, the complexity of the tax system and tax amnesty can affect voluntary tax compliance (Kahriman, 2016: 231). However, it is difficult to determine which of the factors are more effective on tax compliance.

In order to ensure voluntary tax compliance, in addition to the taxpayers' obligations, such as correct declaration of taxable income, timely declaration of taxes, correct calculation of due taxes and payment of taxes, it is also important that the respective authorities implement practices for easing fulfillment of these obligations. (Manhire, 2015: 12). In this framework, invitation to explanation, which has been implemented starting with Article 370 of the Tax Procedure Law and is a new solution to the disputes between tax administration and taxpayers, became an important institution aiming at getting the taxpayers to more actively contribute to the clarification of events within the framework of democracy and thus to increase the voluntary tax compliance. As a matter of fact, Article 1 of the Tax Procedure Law General Communique No. 482 states that "this regulation aims to reduce the disputes between the administration and taxpayer, the administration to devote its time to more efficient and productive areas, the taxpayers to more actively contribute to the determination of events' real nature, and thus to increase voluntary tax compliance", and thereby underlines the importance of the invitation to explanation institution with regard to voluntary tax compliance. This institution, which aims to transfer the taxpayer's participation in the process and its opinions on the subject within the principle of trust mostly in the Anglo-Saxon legal systems, also contributes to the development of democracy in taxation (Bayraklı & Hatipoğlu, 2018: 564).

The institution of invitation to explanation, which is designed as a solution for the taxpayers, for whom the tax audit has not yet begun or whose case has not been sent to the valuation commission, and the right to explain given to the taxpayer could make the taxpayer more willing to fulfill its tax duty. As a matter of fact, in case that competent authorities realize in advance that there are signs of tax loss, instead of immediately issuing penalties to the taxpayers who seems to be causing this tax loss, the administration would listen to the taxpayers (Biyan, 2016: 47). The environment of cooperation and trust created between the taxpayers and the administration will increase tax awareness of the taxpayers and voluntary tax compliance. However, the taxpayers, who regularly pay their taxes and fulfill their other obligations related to tax in a timely and complete manner, will decrease their voluntary compliance, their trust in the administration will be shaken and may start to avoid tax payments after obtaining sufficient information about the subject (Bayraklı & Hatipoğlu, 2018: 580). In this way, while the state is trying to regain the taxpayers, who are not fully aware of tax purposes in order to increase voluntary compliance, it will gradually encourage the taxpayers, who have been fully paying their

taxes, to escape from their tax payments. From the tax awareness perspective, although the practice of invitation to explanation may increase the willingness of taxpayers for fulfilling their tax duty, it will on the other hand decrease the voluntary compliance of the taxpayers, who are already paying their taxes completely and in time, and will also shake their trust in the administration.

4. Conclusion

The invitation to explanation, which is a peaceful solution for the settlement of the disputes between the taxpayer and the tax administration, is a new application with regard to the Turkish Tax Law, and has important implications on both the administration and the taxpayers. The institution of invitation to explanation enables the tax administration to receive the tax payments as soon as possible and decreases its disputes with the taxpayers, as well as provides a fast and effective taxing process. From the taxpayers perspective, it provides several advantages such as preventing unnecessary audits and valuation procedures, and thus preventing the taxpayer from facing unfair and unnecessary procedures, enabling the taxpayers to contribute more actively to the determination of the real nature of events in regard to the democratic state principle, and thus increasing the voluntary tax compliance.

The institution of invitation to explanation prescribed in Article 370 of Tax Procedure Law is a regulation that saves the taxpayer from tax audit and penalty, and increases the voluntary tax compliance, which is defined as enabling the taxpayer to fulfill its tax liabilities on time and in a complete manner. This institution is more important especially in the tax systems, which are based on the principle of declaration, and plays an important role in incorporating the taxpayer into the tax system and increasing the tax compliance. Although, offering the taxpayer the right to explain itself and increasing the cooperation between the taxpayer and the administration contributes to strengthening of tax awareness, this may decrease the voluntary tax compliance of the taxpayers, who regularly pay their taxes, and weaken their trust in the administration.

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AN EVALUATION OF SUBSIDIES GRANTED TO THE PRIVATE EDUCATIONAL INSTITUTIONS WITHIN THE FRAMEWORK OF TURKISH TAXATION SYSTEM

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Abstract

One of the most essential concerns that governments have to deal with has been the theme of Economic growth and development. In order to be able to sustain the aforementioned objectives, states and governments instrumentalize fiscal policies in which subsidies occupy a substantial place. The basic rationale behind these fiscal policies including subsidies has been the allocation of resources to those fields with better and more efficient prospects within the general good of the economy. Despite convergences seen in terms of types and implementation of subsidies, the basic objective is to accomplish higher rates of economic growth and investment.
By means of the Decision of the Council of Ministers of Turkish Republic dated June 19th, 2012 investments to be handled for primary, secondary and high school educational institutions investments were evaluated within the framework of fifth region with the labeling of priority investment contend for the related educational investments. Along with the closure of private-mentoring facilities, the related facilities investors were foreseen to utilize the subsidies to convert these facilities to schools, thereby minimizing the costs of investments coupled with rises in investments. The effort of the study, given the given scope and framework, is to elucidate and to analyze arrangements and recent developments in regard to grants of space and location for investments and exceptions regarding the insurance and tax exceptions and exemption within a general framework of aforementioned subsidy program in Turkey for educational institutions.

Keywords: Incentives, Education, Tax Exemption

JEL Code: H71, H52, H26, I22

1. Introduction

Governments' grants and subsidies provide the private sector and related actors in the name of economic development and growth. As the concerned grants may vary from location to another, these grant schemes may differ on the basis of sectoral basis as well.

Education as a field has a quintessential role to play from the point view of contributing to the making of qualified labor force as a component of the making of human capital. While public

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sector is predominantly involved in the private sector, private sector is also actively indulged in the related field. The subsidies and grants program oriented at the private sector actors in the education field strengthen the private sector partner, thereby contributing to a more effective and quality provision of services along with the realization of higher rates economic growth and development. A review of implementations and applications in the education fief characterized with positive externalities in particular with emphasis on regulations directing at reinforcement of private investments and analysis of the aforementioned schemes shall contribute the development of the private sector in education.

This work has the objective to present a literature review on the implementation of private education sector within a context of Turkish taxation system along with elaboration on different aspects of the scheme

The effort shall be to provide information on the fundamental regulations in regard to the subsidies granted to the private sector in Turkey whilst putting elaborations in the education fields with emphasis on private partners' interactions and their future investments.

2. Concepts in regard to Subsidies and Education System and Evaluations

The concept "subsidies" refer to "material and/or non-material assistance and encouragements with the aim of a faster and a more abundant provision of certain economic activities compared to other provision frameworks" (İncekara, 1995: 9).

Subsides do not only develop provision of economic activities but also contribute to coping with regional economic in inequalities, henceforth contributing to the national economic development on an economic basis. Given the default perspective, subsidies may be defined to be "a summation of supports given by governments with the objective of creation of new employment opportunities in certain sectors and on specific regions and increasing the life quality" (Karabıçak, 2013: 265).

The final objective of the related schemes has been to back the economic growth. There exists a direct relation between subsidies and economic growth. By means of economic growth governments seeks to achieve a higher rate of employment, create a wider basis of taxation and to increase the welfare level (Eser, 2011: 12).

The term subsidies may be able to be explained in terms of their objectives. The term may be defined ad economic-aimed, producer-based subsidies, transfer payments, premiums, credit with favorable conditions (Küçüktürkman, 2007: 61). Succinctly speaking, to be able to realize economic growth and to increase employment sources, to maintain economic stability, all measures taken by governments in economic, social, legal and financial terms may be summarized as subsidies (Tuncer, 2008: 191).

Subsidies in form of in kind, cash and tax-related have served for different purposes throughout the history with different usages. Many governments have aimed to encourage investments by means of subsidies, tax-rebate and direct guarantees programs (Thomas, 2007: 1). By the second mid 980s subsidies have tremendously increased along with the fact that both developing and developed countries have taken advantage of the related schemes (OECD, 2002: 169).

2.1. Education as a concept and Educational expenditures

Many definitions and explanations have been put forth by different scholars throughout the history. One of the related definitions in regard to the term is to create a process of change in the human behavior along with the desired direction with a given objective (Ertürk, 1982: 2).

The enlightenment Age witnesses the usage of the term derived from the Latin Word "educere" for the cultivation of animals and plants. The term has come to be applied for the humans due to the cognitive traits inherent in the concept. While the intelligentsias have come to be identified with the term, the term has come to denote a mature level of moral, physical and character development. Accordingly, education as a concept has a connotation of intellectual physical and moral excellence and its very full formation (Tozlu, 1997:93).

The term education in Turkey has come to mean different sets of meaning corresponding to terms maarif, tedrisat and terbiye as corresponding to Ottoman Turkish (Başaran, 1984:14). The term education as under the term eğitim is inclusive of the aforementioned terms gaining manners, nurturing, fostering, science, discipline,

2.1.1. Types of Education

By the legislation No:1739having come to affect in the Official Newspaper of Turkey No: 14574 dated June 24th, 1973, education came to be defined on two basic categories formal education and common education both being complementary and cooperated The former one is inclusive of primary, secondary, high school and higher education as processes while the latter type come to include the kind of education for the people that could not have Access to educational opportunities, for those that dropped out of formal educational and schooling opportunities, for the people that would like to take advantage whist being involved in the formal educational process and for those groups that would like contribute to contribute to their occupational competencies.

2.1.2. Investment Expenditures

Educational services have positive social, economic and political positive externalities in a society. Along with the increase of these positive externalities, the quality of education has come to be Assoc.d with the related term. The educational services add up to increases in productivity, political stability, social and cultural development and efforts of industrialization efforts to yield (Şener, 2001: 356-357). Due to these traits education come to be classified as a semi-public good and since marginal benefit of these services is lower than their marginal social benefit. Provided that these services are solely left to the market, there will be under-production phenomenon which requires a bail out by government through general budget (Madanoğlu, 1992: 59).

While there is a direct financing of education, there are other financing types namely partial and indirect financing in the partial financing schemes, beneficiaries are asked to pay for tuitions that are the payments by students for the financing of certain items in services. The indirect financing

in the meanwhile refers to the introduction of private partners with granted certain initiatives in the educational sector wile government carries out the public provision of these services (Devrim, Tosuner, 1987: 86-87). The voucher called system is the transfer of a voucher to the beneficiary which gives the chance the students to make use of private educational services (Stiglitz, trans.: Batırel 1988: 463-464). On the other hand, educational expenditures facilitate the redistribution of income, realization of the economic growth, sustaining economic growth which all sum up to the making of investment expenditures (Mutlu, 1997: 249-250).

3. Subsidies in the Education System.

The provision of educational services may be realized by both public and the private sector. Whilst private sector may face different challenges in the provision of these services, public sector may provide remedies to overcome the related problems by means of subsidies schemes. According to the decision of the Council of Misters dated June 19th, 2012 Number 350, the private sector has come to be supported with different subsidies and exceptions, which the study shall address in the following sections.

3.1. Revenue Exemption for the Private Education and Teaching

Along with the regulations of Income Taxation Law No: 193 Article No:20 and Corporation Taxation Law Number 5520 Article No: 8193 as amended by Corporation Taxation Law Number 5528 revenue exemption for the private educational education companies have been defined as follows " revenues gained from preschool, private primary school and private secondary school corporations, pending upon the consent of the related ministries, shall be subject five-term-exemption within the framework of regulation and rules to be determined by the Ministry of Finance and exemptions shall commence in the aftermath of the very date of educational services' beginning and the exemptions to be valid for the subsequent five intervals of taxation (GTL Art. 20;VATL Art.5/1-ı;GTGL 254) (5228 provisional Law Article. 1).

3.2. Exemptions for Research and Development Activities.

According to the Corporation Taxation Law Number 5521 Article Number 1 Clause Number 1 Paragraph ,those corporations under the condition of not being an exclusively defined research and development corporations along with other activities carried out shall have the chance of expenditures of research and development activities realized for the objective of creation of new Technologies within the R&D departments within the company exclusively by a 40 % amount (byte Legislation Number February 2nd 2008 Article Number 5 the rate was determined by 100 %) from the revenue earnings under the item of R&D deductions. Yet this provision was annulled from the legislation Number 6728 Article Number 58 dated July 15th, 2016.

3.3. Value Added Tax in Educational Service

In the Value Added Tax (VAT) Law, the subject of VAT has been defined in the very first article of the related legislation as those activities:

- Services contracts realized within the framework of commercial, industrial and agricultural services
- Import of goods and services of any kind.
- Contracts and services arising from other activities

The casual factor the formation of VAT comes to emerge in different according to its types. In terms of interactions subject to be taxation, the causal events leading to the formation of VAT have been juxtaposed in the VAT Law (Article 10). As a rule, the main causal event in the formation of private educational services is the completion of the service. The education ibn the private educational sector is carried out over a period of time namely the school year. Henceforth, the main causal factor for the formation of VAT is realized at the end of each schooling year (Yılmazcan, 1997: 82). Meanwhile, private education sector subject to the Law Number 625 has also been given the right for tax emption for the free educational and teaching services given bona fide with the condition that they do not exceed over 10% of their capacity. (KDVK md.17/2-b)

3.4. VAT Rates in Private Education Sector

Several definitions have been forth for educational corporations that are regulated by the Law Number 5580 Private Education Corporation Laws Article Number 2. By means of different amendments, Amendment Number 26742 dated December 30th 2007, by means of list Number II mentioned in the decision of the Council of Ministers" universities and higher education facilities" and education and teaching services given by the private education corporations mentioned in the Law 5580 Private Education Corporations, Law Number 2282 Social and Children Services Law and governmental decree Number 576 for the Private Education Corporations and transportation and transfer services given for the students as indicates by the "Bylaw for School Transpiration Services and the accommodation and dormitory services mentioned in the "Private School Accommodation Bylaw", the VAT rate has been determined as 8%.

3.5. Investment Subsidies for the Investments to be realized by Private Educational Corporations

3.5.1. Investment Subsidies realized by Private Sector in Education

2012/3305 Decision of the Council of Ministers with the date of June 6th 2012 Number 28328 stipulates whist regulating the "Government Assistance in Investments" that those investments realized by kindergarten, preschool, primary, secondary, high school schoolings shall be deemed as education investments. (Supplementary Table 2/a. Irrespective of the provinces where these investments would be carried out the investments would take advantage of the 5th Zone and they shall be subject to 6th zone investments should they carry out the concerning investments in the 6th Zone"

In those provinces where the investors would be investing educational investments, within the framework of regional subsidies implementations, investors shall also be granted land and/or provide the location themselves the necessary location, whereby components of subsidies were juxtaposed in the fourth article third paragraph of the legal decision with

These are:

- Tariff exemption
- VAT Exemption
- Tax Rebates
- Share of Employer Support for Insurance Premiums
- Location Grants
- Interest Support
- Income Tax Support (For the 6th Zone Premiums)
- Insurance Premium Support (For the 6th Zone Premiums)

Table One indicates minimum investment levels to make use of these components for the First and second zone an investment of 1 million Turkish liras is re required whereby a minimum of TL 500,000 is required for the third, fourth, fifth and sixth zone.

3.5.2. Tariff Exemption

Most of the equipment required in the Investment Subsidy License can be purchased domestically while they can be supplied from abroad. Most imported machinery and equipment list that can be seen in the license mentioned will be provided without any tariff levied according to the provision stated in the decision stipulating all machinery and shall not be subject to any tariff whatsoever clause

3.5.3. VAT Exemption

According to the VAT Law in Turkey dated October 10th, 1984 Number 305 states that those investors with subsidies license to purchase machinery and equipment shall also be granted VAT exemption during the purchases of these item. On the other hand, all transfers of machinery and equipment within the content of subsidies license content shall also be subject to the exemption while the exemption is also valid for the subsets of equipment and machinery listed in the license

Fixed investment limits over 500 million TL shall also be considered as strategic investment with exemptions granted for expenditures of construction for the infrastructure (28328 sayılı 2012/3305 K.S., Md. 10).

3.5.4. Tax Rebate

Along with the VAT Law in Turkey dated October 10th, 1984 Number 305 Article 32/A stipulates for the content of regional subsidies implementations, revenue and corporation taxes shall be

subject to 70 % deduction until the amount reaches to the foreseen subsidies contribution rate. According to the subsidies documents required by the subsidies decision until the very date December 31st 2014 (inclusive of this very exact date) and provided that investment process has commenced the subsidies support will vary from 80 percent to 40 percent (28328 sayılı 2012/3305 K.S., Md. 15).

3.5.5. Insurance Premium Employers' Share Support

In the regional support programs, upon the completion approval realized subsidies license under the condition that required employment is not exceeded

- For the completely new investments realized with investment subsidies licenses
- In the other types of investment in the aftermath of completion of investment, or in the period six months before the completion of the investment (for the seasonal investment the very recent year's averages are taken under consideration) for the premiums and service documents passed to the Social Security Institution depending on the average number of workers

Premiums support shall also be granted in support employers based on the minimum wage levels from the budgetary allocations granted to the Ministry. The concerning support program shall be given for the projects that have started since December 31st, 2012 for years and 5 years for those that have started after January 1st, 2015. The benefitted insurance premium support levels shall not surpass 25% of the investment. (28328 sayılı 2012/3305 K.S., Md. 12).

3.5.6. Investment Location Support

In the related decision document dated June 29th 2001 Number 4706 supplementary third article corporations may be supported with investment land and location grants for those investment project licenses (28328 sayılı 2012/3305 K.S., Md. 16).

3.5.7. Interest Support

In the case of demands for investments realized through regional support programs and strategic aids along with the content of R&D and environmental projects the credits to be utilized from banks with one-year period interests shall be supported with 70 percent of fixed investment rates for the interests incurred. For the Turkish lira based interests within the 5th Zone Investment region up till 5 points shall be bailed by the government while for foreign currency based credit 2 points shall be supported within the same region. Yet the support limits will not exceed over TL700000 for the interest support. For the 6th Zone of Investments, the Turkish lira based support will be around 7 percent while the foreign currency based credit support shall not be over 2 points with limits not to exceed over TL 900000 **(**28328 sayılı 2012/3305 K.S., Md. 11).

3.5.8. Income Tax Support (For Investments in the 6th Zone)

For the 6th Zone of Investments as indicated in the Investment Subsidies Decision, for the extra employment provided that the amount shall not exceed over the recorded employment level income tax for the workers calculated over the minimum wage amounts shall be not to taxation over the declaration to be given in the aftermath of 10 years of completion of the investment Project fully or partially (28328 sayılı 2012/3305 K.S., Md. 14).

3.5.9. Insurance Premium Support (For Investments in the 6th Zone).

For the 6th Zone of Investments as indicated in the Investment Subsidies Decision, for the extra employment provided that the amount shall not exceed over the recorded employment level insurance premiums paid to the Social Security Institution shall be paid by the Ministry in the aftermath of 10 years of completion of the investment Project fully or partially (28328 sayılı 2012/3305 K.S., Md. 13).

4. Concluding Remarks

Education is a sector that plays a quintessential role in the lives of individuals with its semi-public good characteristic. The private sector plays within the game in appendix to the public sector's involvement. The increase in competitiveness and quality increases in education have come to be two championing claims of the private face of education sector. Yet a commodification of the education system shall be hazardous to the equality of opportunity. In the name of supports given to the private sector, the government should be regulating the subsidies given the impact of social and economic equilibrium to the fifth zone of investment within the regional support programs under the title of "Government Subsidies in Investments" June 9th 2012, 23138 Number3305, with an elaboration of VAT exemptions, tariff reductions and exemptions, tax rebates ınsurance premium supports, employers supports, interest supports along with Zone & implementations. The effort has also dealt with matters including earnings exemption research and development exemptions and other VAT exemptions.

It is without any doubt that the education sectors need to be supported for quality increases in content and quality. It will be of utmost importance that related support and subsidies programs be regulated and monitored closely which constitutes a subject for a new study.

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STRATEGIC INVESTMENT INCENTIVES: TURKISH CASE

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Abstract

The three main instruments of fiscal policy are tax, expenditure and debt. An example of fiscal policy in terms of expenditure is state aids, which is frequently used by an intervention of the state. State aid is a concept that includes expressions such as the incentive and support measure, which is common in daily language.The state aid is determined support given to the production of certain goods and services to a specific region, sector, business or group of enterprises by using public resources.

In Turkey, in addition to the support given in previous years, strategic investment incentives started to be implemented in 2012 with 3305 No. "Decisions About State Aid for Investment". Strategic investment incentives are a spending policy aimed at reducing the current account deficit and eliminating import dependency in the long run, which is applied to products with high import dependency.

This study aims to explore the impact of strategic investment incentive system on investments by examining the strategic investment practices regarding 3305 No. "Decisions About State Aid for Investment".66.503 incentive certificates were issued between 2012 and 2015, of which only 48 are strategic investment incentives. On the other hand, 13%(138.8 billion TL) of the total capital incentive of 1 trillion TL is strategic investmnet incentives. In this context, within the scope of strategic investment incentives(2012-2018), a survey will be carried out with 48 enterprises. The survey included effects of incentives on investors, operation and result of strategic investment incentive system, suggestions. As a result, policy implication will be presented about the applicability of the strategic investment incentive system and whether the tax advantages have reached their goal.

Keywords: The Strategic İnvestment İncentive, Current Account Deficit, Import Dependency, State Aid

JEL Code: H32 - H50

1. Introduction

The three main instruments of fiscal policy are tax, expenditure and debt. An example of fiscal policy in terms of spending is state-aid that often used by the government and is an important policy tool. State-aid is an umbrella term including incentives, subsidy, government support. State aid refers to the incentive given to the production of certain goods and services by using public resources to a specific region, sector, business or enterprise group.

The strategic investment was implemented an incentive system with the cabinet decision numbered 3305 namely "Decision on State-Aid on Investments" in 2012. The objective of

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decree's first article determine "to regulate the principles and procedures to orient savings to investments with high added value, to increase production and employment, to encourage strategic investments and regional and large scale investments which shall increase the international competitive power and which have a high research and development content, to increase international direct investments, to decrease regional development differences, to support investments related to environmental protection and clustering and to support research and development activities related with such investments in conformity with the objectives of development plans and annual programs."

In 2012 with the investment incentives decision set also goal about current account deficit which is an economic problem for Turkey. In this context, 8th article of decree states that "investments of products with a high dependency on imports will be supported under strategic investments". Investments that supported in this context are not predetermined by the policymaker. Each sector can benefit from strategic investment incentive if meets criteria. These criteria are:

- The domestic production capacity for the product to be manufactured with the investment shall be less than the import of the product.
- The investment shall have a minimum investment amount of TRY 50 million.
- The investment shall create a minimum added-value of 40% (this condition is not applicable to refinery and petrochemicals investments).
- The total import value of the product to be manufactured with the investment shall be minimum of USD 50 million as of the past one year (excluding products that are not locally produced) (Sanayi ve Teknoloji Bakanlığı, 2019: 37).

The terms and rates of support provided within the Strategic Investment Incentives Scheme are VAT Exemption, Customs Duty Exemption, Tax Reduction, Social Security Premium Support (Employer's Share), Land Allocation, VAT Refund, Social Security Premium Support (Employee's Share) (for investments in Region 6), Income Tax Withholding Allowance (for investments in Region 6) (Sanayi ve Teknoloji Bakanlığı, 2019: 38) .

2. Turkish Economy and Current Account Deficit

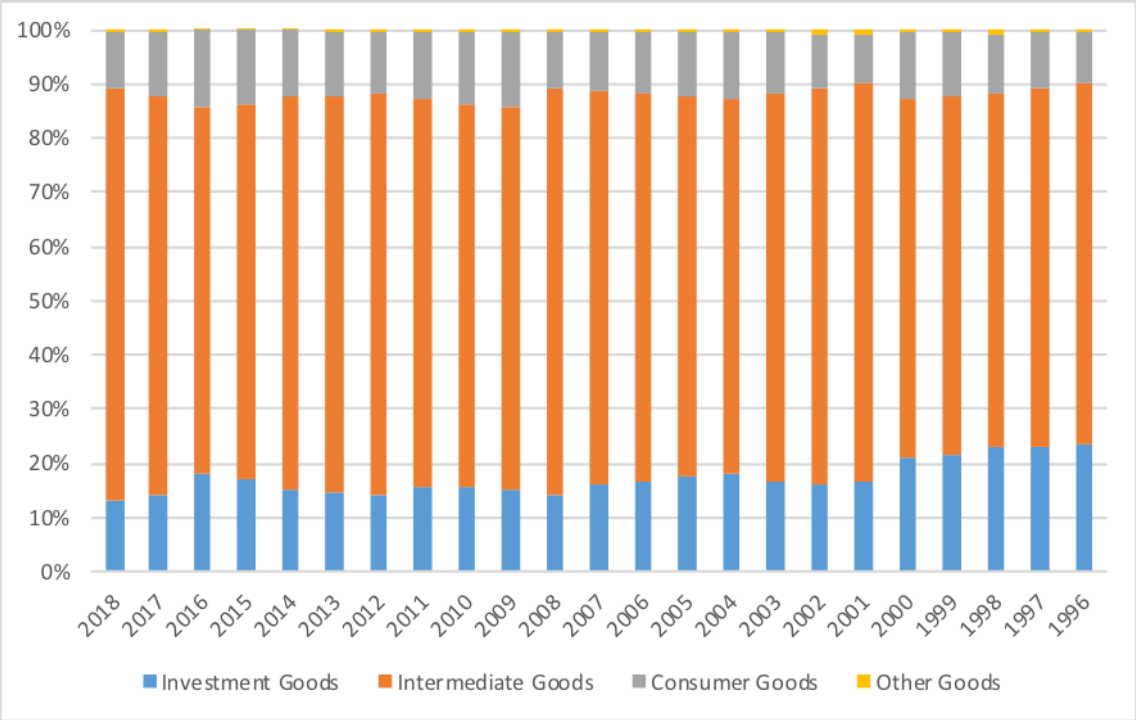
Balance of Payments is a statistical report prepared to show the systematic records of economic transactions between residents of a country with residents of another country (non-residents) over a certain period of time. The current account includes the trade goods and services and primary and secondary income accounts in the balance of payments. In the current account, when the debt exceed the income, in other words, when the difference is negative the result is called a current account deficit (TCMB, 2019).

The ratio of current account deficit to GDP for developing countries is an important indicator for all economic actors. The ratio of current account deficit to GDP range %-9 and %-3,7 between 2010-2018 in Turkey. Despite the fact that the ratio of the current account deficit to the GDP ratio is not always an indicator of destabilization in the literature, there are many studies that sustainability of current account deficit is % 4 – 5 (Babaoğlu, 2005: 10-11).

Current account deficit studies and discussions for Turkey started after "24 January Decision" in 1980. The result of the neo-liberal policies of the 1980s, with the liberalization of foreign trade, total production was directed to exports, imports increased by 56% compared to the previous year and current account deficit increased by 2.8 times. The reason for this increase is the fact that exports are based on production with imported intermediate goods. After 1989, the foreign trade balance acquired a new dimension with the removal of all barriers to capital movements. The source of demand expansion was not individual demand expansion but uncontrolled capital inflows. The result of uncontrolled capital inflows occurs demand expansion and rising current account deficit (Boratav, 2005: 145-192). After 2002, current account deficit increased as a result of the rapid increase in imports, this deficit was financed by hot money inflows and foreign direct investment incentives (Boratav, 2010: 455).

Figure 1 shows the components of imports between 1996-2018 according to Classification of Broad Economic Categories (BEC). In the last 22 years, Turkey's %70 average imports are intermediate goods. With the simple analysis, this figure shows that industrial production in Turkey is foreign-dependent. In this case, Turkey's production depends on the uncertainty in world input sources, the dynamics of the source country and the fluctuations in product prices. In addition, the added value created by the production within the country has to be shared with the foreign markets because of imports. One of the most important problems of the use of imported intermediate goods is the negative impact on competitiveness for following an export-oriented growth strategy (Ekonomi Bakanlığı, 2012).

Figure 1: The Components of Imports according to BEC



Source: TUİK, 2019

As a result, from the 1980s to the present, the short history of the current account deficit shows that the export-oriented growth strategy brings with high imports (especially imports of intermediate goods) and result in current account deficit.

3. The Relation between Strategic Investment and the Current Account Deficit

Strategic investment incentives are presented as a policy for the current account deficit (Ekonomi Bakanlğı, 2012). These policies aim to reduce the import of treated raw materials for industry and to promote investments in these areas in Turkey. We can define this policy as localization (YASED, 2011, s. 13). Strategic investment incentive is based on supporting high value-added investments that will contribute to the reduction of the current account deficit.

The strategic investment incentive policy has been determined for the sectors that use imported intermediate goods and raw materials. These sectors are the source of high foreign trade deficit. These sectors are defined by the "Input Supply Strategy(ISS)" that prepared by the Ministry of Economy and published in the Official Gazette as of December 2012. The aim of ISS is to direct both domestic and foreign investment expenditures to these sectors. Unprocessed high raw material importing sectors are determined as iron-steel, mining, automotive and machinery, chemical products, textile and agriculture (T.C. Ekonomi Bakanlığı, 2012, s. 17-23). The sectors have not changed in the Input Supply Strategy Action Plan for the years 2017-2019. In this context, the strategic investment incentives aim to reduce imports of raw materials and to promote investment in this sector to reduce the current account deficit in Turkey.

4. Strategic Investment Incentive Practices

48 investment was provided incentive within the scope of strategic investment incentives between 2012-2018. With the incentive system, a total of TL 1 trillion of incentives was provided, of which TL 138.8 million, or 13%, was provided as a strategic investment incentive. 38 of these investments made by domestic capital and 10 by foreign capital. On the other hand, 60% amount of the total strategic investments were made by foreign capital. According to the investment capital, 87% of the investments is a greenfield investment, 9% expansion and 4% other (product diversification). When we examine the sector, the most investment incentive certificate is given to the manufacturing sector with 61%, while the sector with the most capital is the energy sector with 60%. When we examine the sub-sectors, the energy sector is followed by the chemical and extraction and processing (mine) sectors in terms of the fixed investment amount.

When the strategic investments incentives and sectors prioritized by ISS are examined, the investments are made in the sectors of mining and chemical products, while investor in the iron and steel, automotive and machinery, textile and agriculture sectors didn't receive or demand incentives. Although the expectations for strategic investment incentive policy were very high, this expectation has not been met yet. In this context, 48 strategic investors will be interviewed and their opinions will be compiled by a questionnaire. Thus, in terms of strategic investment incentives practices of investors will put forward and positive and negative aspects of topic will

be evaluated in the context of Turkey. At this stage, it will be tried to explain whether the tax advantages have been achieved in strategic investment incentives.

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THE CONCEPT OF COLLECTIVE INVESTMENT INSTITUTION AND SPECIFIC TAX ADVANTAGES PROVIDED FOR THESE INSTITUTIONS IN TURKEY

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Abstract

In this paper, the concept of collective investment institution and the regulations in Turkey that are in the Capital Markets Legistation intended for these institutions will be outlined, and tax advantages provided for collective investment institutions and investors and problems and suggestions occurred in the application will be discussed. The importance of collective investment institutions operating in the world under 3 legal structures, namely investment company, trust and contractual model to enable investors with low savings to operate in the financial markets has gradually increased in the countries' economies. In Turkey, according to regulations in Capital Markets Legislation, collective investment institutions operate in two legal structures, namely investment companies and investment funds. Advantages provided to these institutions and investors in our tax legislation are as follows: For investors; participation income exemption in Article 5 and deduction in venture capital fund in Article 10 of Corporate Income Tax Law; deduction in venture capital fund in Article 89 of Income Tax Law; non-declaration of incomes and %0 rate of withholding tax for income obtained from participation certificates and stocks of some funds and companies in Provisional Article of 67, forcollective investment institutions; exception of portfolio management or corporate profits in Article 5 and %0 rate of withholding tax for exempted profits in Article 15 of Corporate Income Tax Law**;** %0 rate of withholding tax for exempted profits and no withholding tax for some incomes in Provisional Article of 67 of Income Tax Law, exception of BITT for the money and capital market profits of some institutions in Law on Taxes on Expenditure, exceptions of stamp tax for some papers in Stamp Tax Law. In conclusion, recommendations will be given as such; preparation of clear regulations regarding the provisions providing tax advantages to collective investment institutions, expansion of the scopes of existing tax benefits; applying no withholding tax to incomes derived by some institutions from their assets and transactions in order to avoid creating more costly result than investor's direct investment, making regulations in respect of exceptions concerning Value Added Tax, Title Fees and Real Estate Tax for some investment fund and companies.

Keywords: Collective, Investment, Institution, Fund, Company, Tax

JEL Code: G23, H20, K34,

1. Introduction

The purpose of collective investment institutions is to direct the savings of small savings holders who do not have the necessary knowledge to invest in financial markets, hesitate to invest in

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these markets due to the risks and do not have the opportunity to invest in various investment instruments due to their low savings to financial markets.

Therefore, the investment instruments in which big capital owners have the opportunity to invest also become available for small investors by minimizing the risks through professional institutions.

The importance of collective investment institutions has increased gradually in financial markets and national economies around the world, and the shares/stocks of these institutions have become the one of the preferred investment instruments. Moreover, in the historical development process, different types and structures of collective investment institutions started to operate in line with the needs of investors and markets.

Therefore, arrangements have also been made in Turkey to provide tax advantages for both collective investment institutions and investors.

The subject of this paper consists of the concept of collective investment institution and the general provisions of Capital Market Legislation for investment funds and companies, which are collective investment institutions operating in our country, explaining the regulations that provide tax advantages (*exception, deduction, %0 tax rate, non-declaration*) for collective investment institutions and their investors in our tax legislation and evaluating the problems encountered in practice and giving suggestions about this issue.

2. Concept of Collective Investment Institutions (CII)

With a general definition *collective investment institution* (CII) generally refers to incorporated companies or unincorporated undertakings that invest in financial assets (mainly marketable securities and bank deposits) and/or non-financial assets using the funds collected from investors by means of issuing shares/units (OECD, 2008: 192).

It is seen that CII can be established under three different legal framework, namely investment company, trust and contract model (HAFEEZ, 2015: 152).

The first establishment in the world, similar to today's CII, is *The Foreign & Colonial Goverment Trust*, founded in 1868 in the UK. The purpose of the fund in the certificate of formation was indicated as;

"To provide the investor of moderate means the same advantage as the large capitals in diminishing risk…by spreading the investment over a number of stocks" (St. GILES and others, 2003: 14)

The EU issued a directive on the collective investment models on the Undertakings for Collective Investments in Transferable Securities - *UCITS* (CMB, 1997: 17)Furthermore, various studies are being carried out for CII within OECD (OECD, 2001: 10)

3. Collective Investment Institutions in Turkey

According to Article 3/(m) of the Capital Market Law (CML);

CII are investment funds and investment companies.

"Investment funds" in Article 52 of CML is defined as;

"the asset which is established by portfolio management companies within the fund rules in conformity with the fudiciary ownership[1] principles on the account of the savers, with money or other assets gathered from savers pursuant to the provisions of this Law in return for fund units in order to operate the portfolio or portfolios consisting of instruments and rights determined by the Board and which does not have a legal entity…"

The types of investment funds can be listed as; securities, stock market, real estate, venture capital and pension investment funds.

"Investment companies " in Article 48 of CML are defined as;

"…joint stock corporations with fixed or variable capital established in order to issue their shares and with the purpose of managing the portfolios comprised of capital market instruments, real estates, venture-capital investments and other assets and rights to be determined by the Board "

The types of investment companies can be classified as; securities, real estate and venture capital investment companies.

4. Tax Advantages Specific to the Collective Investment Institutions in Turkey

4.1. Corporate Income Tax Law (CITL)

In accordance with article 5 of the CIT Law,

"The dividends obtained from participation shares of resident venture capital investment funds and stocks of resident venture capital investment companies*"*

are exempt from CIT. (CITL art. 5-1-a-3)

Also according to Article 5 of CITL;

-profits derived from portfolio management of securities investment funds or companies established in Turkey and investment funds or companies whose portfolio traded on a stock exchange established in Turkey based on gold and precious metals,

-income of pension investment funds, venture capital and real estate investment funds or companies

are exempt from CIT.(CITL art. 5-1-d)

However, if aforementioned institutions have other incomes not qualifying for exception, those incomes are subject to CIT.

In Article 15-(3) of CITL; It is stated that;

[1] About this concept see: OĞUZMAN-ÖZ, 2018: 133

"barring incomes of pension investment funds, a %15 withholding is made within the corporation from the incomes (whether distributed or not) stated in subparagraph (d) of paragraph 1 of Article 5 of the Law."

However, with Council of Ministers Decision (CMD) No. 2009/14594, withholding tax rate is 0%.

In terms of foreign investment funds, tax advantages are provided in Article 5 / A of CITL in case of certain conditions.

According to Article 10/g of the CITL, the portion (not exceeding %10 declared income) of the amount allocated as venture capital fund in Article 325/A of the Tax Procedure Law (TPL) can be deducted from the tax base.

4.2. Income Tax Law (ITL)

In Article 89/12 of ITL, there is a provision stipulating a deduction of venture capital fund in terms of income tax according to Article 325/A of TPL.

On the other hand Provisional Article 67 of ITL requires taxation by means of withholding for security incomes, which are as follows:

- In paragraph 1, trading income of the stocks and bonds, bond interest, incomes of investment fund share and lending income,

- In paragraph 2, excluding the payments to banks or brokerage houses or to other real persons and legal entities through banks, security incomes (all kinds of bonds, treasury bill interests) stated in Article 75/5 of ITL,

- In paragraph 3, banks and brokerage houses to acquire a security or other capital market instrument without being subject to withholding tax under paragraph (1),

- In paragraph 4, security capital incomes stated in subparagraphs of 7 *(deposit rates),* 12 *(for example, dividends paid to creditors not charging interest, and dividends paid for profit and loss share certificates)* and 14 *(repo / reverse repo revenues)*

are subject to %15 withholding tax.

The tax advantages of this article will be explained under the following headings:

4.2.1. Tax Advantages Specific to Collective Investment Institutions

In Provisional Article of 67/5 of ITL, it is stated that in accordance with the provisions of paragraphs (1) and (4), no withholding tax will be made from revenues of exchange traded funds and pension investment funds established according to CML.

With CMD No. 2006/10731,

- withholding tax rate was determined as %0 for the incomes of some funds and companies stated in paragraphs (1), (2), (3) and (4) of Provisional Article 67. These are;

- stock exchange investment funds

-security investment funds and companies established in accordance with CML.

According to Provisional Article 67/8 of ITL, incomes (*whether distributed or not*) of security investment funds (including exchage traded funds) and companies established in accordance with CML that are exempt from CIT, are subject to %15 withholding tax.

However, with CMD No. 2006/10731, this rate was determined as %0.

4.2.2. Tax Advantages Specific to Investors

Within the paragraph 1 of Provisional Article 67 of ITL, incomes of investment funds share and profits of investment companies on stock trading are subject to withholding tax.[1]

However, the rate of withholding tax for incomes of resident and non-resident corporations under the specified paragraph (*hence incomes of investment funds share and profits of investment* companies *on stock trading*) is determined as 0%.

The withholding tax rate for resident and non-resident individuals' incomes of investment funds share and profits of investment companies stock trading is determined as %10.

The incomes derived from the disposal of participation certificates held more than a year is out of the scope of withholding tax if 51% of the portfolio of the investment fund is continuously invested in the stocks traded in BIST. (ITL Prov.67/1)

With CMD No. 2012/3141, the incomes obtained by resident and non-resident individuals, which are;

- Shares of stock-intensive funds

- Profits derived from the disposal of real estate and venture capital investment companies

are subject to %0 withholding tax.

4.3. Law on Taxes on Expenditure (BITT)

Securities and venture capital investment funds and companies and pension investment funds are considered as BITT taxpayers as they fall into the banker's definition because they perform the activities specified in Article 28 of Law No. 6802 as the main subject of the activities. Other transactions of the mentioned institutions are not subject to BITT.[2]

In Article 29/t of the Law*, the money obtained as a result of the transactions made in money and capital markets by pension investment funds, security investment funds and companies, and venture capital investment funds and* companiesare exempt from BITT.

[1] Dividends of investment company stocks will be taxed in accordance with the general provisions of the ITL and CITL (as it is not covered in Provisional Article 67 of the Income Tax Law).
[2] The transactions of these institutions under the scope of BITT are exempt from VAT according to the article 17-4-e of VATL. Other transactions are subject to VAT.

Since the main subject of real estate investment funds and companies is not trading securities or capital market instruments, these institutions do not have any liability for BITT.[1]

4.4. Stamp Tax Law (STL)

In Table 2 *(of subparagraphs IV -16, 21 and 50. and subparagraph 21)* on exceptions in STL, there are exception regulations for documents concerning some transactions of investment funds, pension investment funds, real estate investment funds and companies, and venture capital investment funds and companies.

5. Conclusion

In article 5 of CITL, incomes derived from venture capital investment funds and companies and corporate profits or profits obtained from portfolio management of investment funds and companies based in Turkey are exempt from CIT.

In terms of foreign investment funds, regulations are made to provide tax advantages in case of existence of the conditions stated in Article 5/A of CITL.

Additionally, withholding tax rate for the income of investment funds and companies exempted from CIT is determined as 0% in Article 15/3 of CITL.

In Provisional Article 67 of ITL, tax advantages *(such as exclusion from withholding tax, nondeclaration right and 0% tax rate)* are provided to corporate profits of investment funds and companies, to some incomes and revenues within the article some of their income and to investors of these institution.

In articles 89 of ITL and 10 of CITL the amount allocated as venture capital funds in article 325/A of TPL can be deducted at certain rates.

Besides, tax exceptions are regulated for the development of certain CII in Turkey within Law on Taxes on Expenditure and STL.

In cases where the provisions providing tax advantages for CII are not sufficiently clear *(such as, the portfolio structure of funds to be exempted from tax and the nature of the papers to be exempted),* as the tax administration seems to have a narrow interpretation of their scope, the legislator needs to explicitly write these provisions.

It is recommended that the scope of existing tax advantages for CII and investors should be extended, all of the profits and revenues obtained from the transactions and the assets in portfolio of these institution should be excluded from withholding tax and thereby a more costly result will not be caused than the direct investment of the investor. Regulations for VAT, title fees and real estate tax exceptions for some investment funds and companies can also be recommended.

[1] Real estate investment funds and companies are VAT taxpayers.

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PUBLIC ENTERPRISES AND TAXATION ISSUES WITHIN THE FRAMEWORK OF TURKISH CORPORATE TAX

Erkan AYDIN[1]

Abstract

On top of their main purpose of delivering public service, it is possible for the public administrations and public institutions to establish economic enterprises in order to engage commercial, industrial and agricultural activities. In this respect, as per the Article 2 of the Corporate Tax Law No. 5520, the public enterprises are considered as corporate taxpayers. The main reason behind the taxation of public enterprises is to avoid competitive distortions between public and private enterprises. Therefore, public enterprises should not seek profit but engage with the enacted activities. Also, public enterprises are unincorporated entities that are considered as corporate taxpayers even in the absence of independent accounting, dedicated capital or business office. However, as per the Article 4 of the Corporate Tax Law, the public administrations and public institutions that are engaging in activities such as education, health, social welfare, culture and art are exempt from corporate tax.

Public enterprises gain assests depending on their emergence as an economic enterprise in accordance with their activities. Economic enterprises emerge as a result of permanent commercial, industrial and agricultural activities. However, sometimes there are different opinions on under which circumstances a public enterprise becomes an economic enterprise as far as the tax applications are concerned.

In this regard, there are sometimes issues on determining under which circumstances the enterprises with revolving capital are not exempt from corporate tax and if their activities form an economic enterprise. Similarly, there are sometimes issues on determining if the activities of the community facilities that are run by public administrations and public institutions breaching the conditions of corporate tax exemption. In addition, it is also an arguable issue that the economic enterprises that are owned by professional organisations that are legal entities with the status of a public institution are considered within the scope of the enterprises owned by assosications, whilst not regarded as public enterprises in terms of tax applications.

Keywords: Public enterprises, economic enterprise, revolving capital, corporate tax, taxation issues

JEL Code: H20, H25, K34

1. Introduction

Public administrations and public institutions have the common purpose of providing public services in order to meet public needs. It is also possible for public administrations and public institutions to establish economic enterprises. After taking this into account, public enterprises are regarded as corporate taxpayer as per the Article 2 of the Corporate Tax Law No. 5520.

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Furthermore, the Article 4 of the Corporate Tax Law holds the public administrations and public institutions that are delivering common public services exempt from corporate tax.

The main reason that public enterprises are considered as a taxpayer is to avoid unfair competition with the private enterprises. It is natural for public enterprises to be considered as a corporate taxpayer as their activities are on the same level with private enterprises even though the main purpose of public enterprises is not to gain profit.

In order for a public enterprise exist, the economic enterprise has to emerge as a result of their activities. An economic enterprise emerges as a result of permanent commercial, industrial and agricultural activities. However, there are sometimes disputes on under which circumstances the private enterprises emerge according to the application of corporate tax.

In this study, firstly, the concept of public enterprise as per the Corporate Tax Law will be explained and compared to similar concepts. Secondly, how public enterprises emerge within public administrations and public institutions will be detailed. And then, the issues on corporate taxation of revolving funds, social facilities owned by the public administrations and public institutions, prison workshops, public professional organisations and finally economic enterprises owned by foreign countries will be discussed in the light of administrative reviews and judicial decisions.

2. Public Enterprises

2.1. The Concepts of the Public Enterprises and the Economic Public Enterprises

Article 2 of the Executive Order No. 233 identifies public economic enterprise as the common name of state economic enterprise and public economic organisation. State economic enterprise is defined as a public economic enterprise that operates in accordance with commercial principals and its shares are fully owned by the state. However, public economic organisation is defined as an organisation that is established in order to solely-provide certain goods and services and its shares are fully owned by the state.

The concept of public enterprise is described as wider than state economic enterprise and it also includes the economic enterprises that are out of state economic enterprise in the Corporate Tax Law (Oluş-Özbalcı Mali Hukuk Bürosu, 2012: 69; Sezgin, 2014: 44; Tekin& Kartaloğlu, 2010: 45; Arpacı, 2016: 35).

2.2. The Necessities for Being a Public Enterprise

As per the Article 2 of the Corporate Tax Law, public enterprises are owned by the state, provincial special administrations and other public administrations and public institutions. They are defined as “commercial, industrial and agricultural enterprises” of continuous operation outside of equity companies and cooperatives. Ownership here means the capital ownership and the affiliation means the administrative affiliation according to the No.1 General Communiqué of Corporate Tax.

The purpose of the taxation of the public enterprises is to avoid any unfair competition in the free market against private enterprises by granting the public enterprises tax privilege (Maç, 1999: 14; Şenyüz, 2007: 22; Uysal & Eroğlu, 2008: 92; Ürel, 2009: 13). Thus, their tax obligation is not affected by not seeking profit, their activities are enacted as duties, being unincorporated. Also, non-existence of independent accounting and reserved capital or any business offices do not affect their tax obligation. Furthermore, the public enterprises still cannot avoid tax obligation in the event of total cost and total revenue of the goods and services being equal or failing to profit, using the profit for the founding purpose, the public enterprises still cannot avoid tax obligation.

2.3. The Conditions for the Existence of Economic Enterprise Owned by Public Instution

An economic enterprise owned by a public enterprise is determined under certain conditions. According to the No.1 General Communiqué of Corporate Tax, in order to determine a public enterprise which establishes a commercial, industrial or agricultural enterprises, the regulations concerning the enterprises owned by associations and foundations will be taken into account.

While conducting activities such as production or trade of goods or performing services under the principles of free market economy as part of a continuous and certain organisation, an economic enterprise is determined. (Oluş-Özbalcı Mali Hukuk Bürosu, 2012: 71; Semercigil, 1995: 22-23; Sezgin, 2014: 45). The transfer of the income gained by public enterprises to the Treasury does not effect the existence of public enterprises. On this matter, a cafeteria that is run as a public enterprise of a revolving fund and the transfer of its income to the Treasury will not change the existance of the commercial activity according to the decision of the General Assembly of Tax Courts of the Council of State[1]. However, in the event of gaining incidental income or income from movable and immovable assets, the existence of a public enterprise cannot be claimed. (Maç, 1999: 16; Uysal & Eroğlu, 2008: 96). Thus, a related decision of the Council of State states that the rental income through the municipality's immovable assets cannot be considered as a commercial income[2].

3. Taxation Issues Of The Public Enterprises

3.1. Corporate Tax Obligation of the Revolving Funds

Article 3 of the Budget and Accounting Directive for the Revolving Funds defines the revolving funds as the funds that are assigned to the enterprises that are established by the public

[1] The General Assembly of Tax Courts of the Council of State Decision, Date: 27.02.2004, Case No: 2003/331, Decision No: 2004/18, www.legalbank.net/MusePath/belge/d-vddk-e-2003-331-k-2004-18-t-27-02-2004-danistay-vergi-dava-daireleri-kurulu-karari/623171 (Accessed on: 12.01.2019)

[2] 3rd Chamber of the Council of State Decision, Date: 07.02.2012, Case No: 2010/3441, Decision No: 2012/304, www.legalbank.net/MusePath/belge/d-3-d-e-2010-3441-k-2012-304-t-07-02-2012-belediyeye-ait-gayrimenkul-sermaye-iradi-kapsamina-giren-k/1409705 (Accesed on: 14.12.2018)

administrations in order to operate to provide services and goods that are within the scope of their duties but impossible to perform under the general administrative principles.

The revolving funds are considered as public enterprise as per No.1 General Communiqué of Corporate Tax. Also, tax exemption applies to the public administrations and public institutions that are active in education, health, social welfare, culture, and art under the Article 4/ (1) of the Corporate Tax Law. However, in case of operating continuously commercial, industrial, and agricultural activities without the mentioned objectives, the revolving funds become corporate taxpayers (Beylik, 2010: 47). This is applicable to the activities within universities. Therefore, the income delivered by the revolving funds or continuing education centres from the activities that falls outside the scope of these objectives are to be taxed (Uzunoğlu, 2015: 23).

In this regard, a ruling issued by tax administration regulates economic enterprises that emerged after the sale of project development, consultancy, analysis and surveying services, the revolving funds as public funds become corporate taxpayers[1]. A cafeteria owned by the revolving fund of an educational institution is considered as an economic enterprise and consequently regarded as a corporate taxpayer as per the aforementioned decision of the General Assembly of Tax Courts of the Council of State. On a contrary decision, the General Assembly of Tax Courts of the Council of State ruled that the corporate tax obligation does not occur for facilities of occupational skill training for the students of vocational schools of tourism and hotel management[2].

3.2. The Social Facilities Owned by the Public Administrations and Public Institutions

It is known that some social facilities that are run by public administrations and public institutions provide services to non-civil servants as well. According to the Article 4/(1)-d of the Corporate Tax Law, public administration's nurseries, guest houses, and canteens of the military barracks that serve solely to the public servants are exempt from the corporate tax. The state institutions and organizations within the scope of the general management, such as the regulatory and auditing institutions, social security institutions, and nurseries and guest houses owned by the local institutions can also benefit from this exemption as per the General Communiqué.

Social facilities owned by public organisations need to be considered as economic enterprises once their services are provided to non-members of those facilities (Arslan 2016: 120). Furthermore, they need to be considered in breach of the conditions of exemption in case their service exceeds purpose of meeting the necessary needs. In a related ruling, it is stated that state-owned accommodation facilities are to become corporate taxpayers in case their services exceed the necessary services such as accommodation and food for public servants[3]. However, the

[1] Istanbul Tax Department, The Ruling, Date: 11.06.2015, No: 62030549-125[2-2014/266]-60309, http://www.gib.gov.tr/doner-sermaye-isletme-mudurlugunun-kurumlar-vergisi-mukellefiyeti (Accesed on: 13.01.2019)

[2] 4th Chamber of the Council of State Decision, Date: 21.12.2015, Case No: 2015/10087, Decision No: 2015/7548 (Personal Archive)

[3] Ankara Tax Department, The Ruling, Date: 19.08.2011, No: B.07.1.GİB.4.06.16.01-2011-KVK-1-3-627, www.lexpera.com.tr/mevzuat/ozelgeler/GE801D20110819HM1634431965 (Accessed on: 08.02.2019)

Council of State ruled that it is not possible to hold the non-profit social facilities responsible for corporate tax for their services they operate to survive[1].

Additionally, according to the General Communiqué canteens that are established for the sale of necessary goods for soldiers are exempt from the corporate tax. Since the Military Canteens Directive does not include such limitation, there is an incompatibility between the military and tax legislation on this matter. Also, the limitation of tax exemption by a general communiqué on a tax exemption delivered by the Corporate Tax Law creates uncertainties on the tax applications (Topsakal, 227: 240).

3.3. Corporate Tax Exemption of Prison Workshops

As per the Article 4/(1)-c of the Corporate Tax Law, workshops of penal and hospice institutions are exempt from the corporate tax. Moreover, Section 4.3.2 of the No 1. General Communique of Corporate Tax classifies canteens and car parks owned by the workshops as economic enterprises and considers them corporate taxpayers. However, the Council of State reversed this regulation as the mentioned exemption is not subjected to a condition[2].

3.4. Enterprises Owned by the Public Professional Organisations

Public professional organisations are respected as public legal entities under the Article 135 of the Constitution. These institutions are exempt from tax for the income that is delivered as part of the activities that are enacted by law as duties. However, they will become corporate taxpayers after their activities outside their duties and purposes cause them to become an economic enterprise. An economic enterprise will emerge in case of the permanent and tollable activities of the occupational associations that delivers income from third parties as the Council of State rule[3].

In this respect, since the professional organisations are considered as public intiutitons, it is conceivable to state that their economic enterprises need to be considered as public enterprises (Paklar, 1987: 64). However, the Council of State ruled that the economic enterprises owned by the public professional organisations are subjected to the laws that are applicaple to the enterprises owned by the assosications[4].

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[1] 4th Chamber of the Council of State Decision, Date: 27.01.2014, Case No: 2010/5519, Decision No: 2014/447 (Personal Archive)

[2] The General Assembly of Tax Courts of the Council of State Decision, Date: 16.04.2010, Case No: 2008/783, Decision No: 2010/200, www.kazanci.com/MusePath/kho2/ibb/files/dsp.php?fn=vddgk-2008-783.htm&kw=`2008/783`#fm (Accessed on: 14.01.2019)

[3] 3rd Chamber of the Council of State Decision, Date: 24.11.2008, Case No: 2007/3869, Decision No: 2008/3718, www.legalbank.net/MusePath/belge/d-3-d-e-2007-3869-k-2008-3718-t-24-11-2008-turk-muhendis-ve-mimar-odalasi-gerlilerinin-kurumlar-verg/648608 (Accessed on: 04.01.2019)

[4] 9th Chamber of the Council of State Decision, Date: 17.06.2008 Case No: 2007/6016, Decision No: 2008/3170, www.legalbank.net/MusePath/belge/d-9-d-e-2007-6016-k-2008-3170-t-17-06-2008-vergi-odevi/623021 (Accessed on: 04.01.2019)

3.5. Economic Enterprises Owned by Foreign Countries

As per the Article 2/(4) of the Corporate Tax Law, the commercial, industrial and agricultural enterprises outside the scope of capital companies and cooperatives that are owned by foreign countries or foreign administration and institutions are also subjected to corporate tax as are the ones owned by the Turkish public administrations and public institutions. In this regard, the economic activities of the foreign representatives over the limits of the diplomatic represenatation also needs to be subjected to the corporate tax (Abay, 2013: 54).

In case of the permanent commercial, industrial or agricultutal activities of the foreign countries or foreign administration and institutions, an economic enterprise will be formed and consequently the corporate tax obligation will occur. Thus, the ruling on this matter states that the offices of the foreign countries are not corporate taxpayers unless these offices involve any commercial, industrial or agricultural activities in Turkey[1].

4. Conclusion

Public enterprises are the economic enterprises owned by the public administrations and public institutions. The Corporate Tax Law has detailed the concept of the public enterprises and included the enterprises that are not classified as the public economic enterprises.

The public enterprises are regarded as the corporate tax payers in order to avoid unfair competition against other enterprises that are operating under the same economic conditions. It does not hold a public enterprise to become a corporate tax payer even if they are not seeking profit, operating solely for the duties given by the law, possess legal entity, and having an independent accounting and dedicated capital or offices.

A public enterprise can only exists as after an economic enterprise emerges. An economic enterprise on the other hand, becomes as a result of permanent commercial, industrial or agricultural activity through a specific organisation. Therefore, the income stemmed from an temporary activities or moveable or immovable properties does not consititute the economic enterprise.

For the application of corporate tax, there are noted differences between administrative and judicial opinions on the requirements of an enterprise to be considered as a public enterprise. In this regards, there are difficulties on how to identify the activities of the revolving funds that establish a corporate taxpayer enterprise. It is also disputable whether or not to consider the enterprises owned by the public professional organisations as public enterprise and regard them within the scope of the enterprise owned by the assosciations.

[1] General Directorate of Revenues, The Ruling, Date: 15.06.1999, No: b.07.0.GEL.0.87/8734/24224, www.gib.gov.tr/node/97636 (Accessed on: 08.02.2019)

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THE STRUCTURE OF TAX CULTURE AND TAXPAYERS' PERCEPTIONS IN TURKEY*

Emine YÖNEY[1] **E. Figen ALTUĞ**[2]

Abstract

This study investigates the tax culture in Turkey. The tax culture, which is an interdisciplinary and abstract concept, represents the transmission of the codes related to tax and way of thinking in a society through values, from generation to generation. This concept becomes tangible through tax behavior. In this respect, the aim of this study is to introduce the taxpayers' perception by dwelling on tax culture in Turkey within the framework of social values and tax behavior. Within this context, qualitative research method is used in order to identify the direction (positive or negative) of tax culture in Turkey and to research the interactions between tax culture and tax behavior. Within this method, data collection technique is practiced with triangulation process. The qualitative data is visualized with content analysis; afterwards, the network analysis is conducted. The most substantial finding acquired from the result of these analyses is the problems created in the tax payment and taxing culture due to abrasion in the value of fairness. Taxpayers, who profess that the tax culture is based on unfairness, express their negative opinions by stating that "there is no tax culture", "the level of tax culture is inadequate" and "tax culture is negative" in Turkey. From this point of view, it is found out that tax culture in Turkey is a negative tax culture. On the other hand, it is observed that the value of trust to the state, also in relation to fairness, is considerably influential on tax culture and tax behavior. Taxpayers, who think that taxing culture is based on the values of not questioning the state, patriotism, and submissiveness, do not build a relationship between these values and tax paying culture and tax behavior. The other significant finding of this study is that the value of religiousness has only a connection with the behavior of voluntary tax compliance. On the contrary, the essential factors effective in the transmission of the tax culture to the next generations are tax paying culture, troubles in transforming the values into behavior, hope and expectations for the future, the value of fairness, and the academicians who are one of the actors in the tax culture.

Keywords: Tax Culture, Values, Tax Behavior, Voluntary Tax Compliance, Social Values.

JEL Code: A13, A14, H26

1. Introduction

Culture and the values resourcing it have significant importance for the understanding of the differences between the societies and social behavior. Individuals adopting the values and the culture of a society through socializing process have begun to be in accord with the society. On

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the other hand, the values assist the carrying of the behaviors to the required status by being transformed into judgments that depict the required actions. However, in some cases, the link between the values and the behaviors can be broken; thus, individuals may not perform actions in compliance with the values.

Why do the individuals tend towards a negative behavior such as tax evasion? What are the reasons behind the disconnection between the values and the tax behavior? In this respect, the main aim of this study is to analyze the structure of tax culture, the patterns concerning the tax culture and the way they are perceived by the taxpayers in Turkey. The scope of the study is the interaction between the taxpayers' values, tax behavior, and the perception of tax culture within the context of this study's aims. In relation to aim and the scope, qualitative research method is chosen for this study.

2. Theoretical Framework

Theoretical framework of this study is based on the assumption that the values are the basis of the culture and these values affect tax culture and tax behavior.

2.1. Culture and Values

Culture is defined in numerous ways in various disciplines (Fukuyama, 2000: 50; Hofstede, 2001: 9-10; Schwartz, 2006: 138-139; Fichter, 2011: 154), here in this study, culture is referred to as cognitive programming; realized within the center of values, formed by the values, and that governs the behaviors.

Values are also described in many different ways (Rokeach, 1973: 5; Hofstede, 2001: 5; Giddens, 2012: 53; Parsons & Shils, 2013: 55). According to this study, values are the senses, thoughts, and beliefs that constitute the basis of culture and a society's genes and it process the intended behaviors to the individuals' minds through shaping the choices between events/ situations. Within this respect, values are expected to be influential on tax behavior and tax culture.

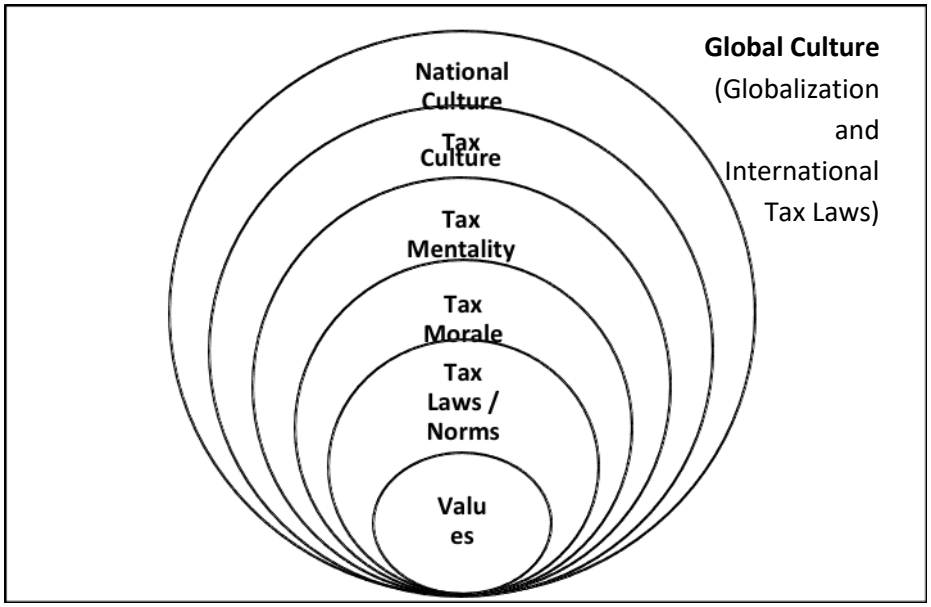
2.2. Tax Behavior and Tax Culture

The other concept that is required to be dwelled on in terms of the scope of this study is tax behavior. Tax behavior in finance literature is studied with different subjects such as the taxpayers' reactions or attitude towards tax (Aksoy, 1998; Aktan, Dileyici & Saraç, 2002; Yılmaz & Şeker, 2007). Within this study, tax behavior is narrowed down to voluntary tax compliance, tax avoidance, and tax evasion.

Schumpeter pioneers the theoretical usage of tax culture comprising the relations among all the actors of culture and tax in 1929 (Nerre, 2001a: 2). Nerre comes to the forefront in the theoretical modeling of this concept (Nerre, 2001a; 2001b; Nerre, 2004; Nerre and Blumenthal, 2003; Nerre, 2008).

In this study, tax culture is described as the codes relating to tax concept that processed society's mind through culture and values, way of thinking and behavior transmitted from a generation to another with historical accumulation, and the ability to anticipate course of tax in terms of tax management. Besides, the concept involves the taxpaying culture and taxation culture.

Figure 1. Theoretical Position of Tax Culture



Source: Based on Nerre, 2001a: 13

On the other hand, the concept is located as an agent of national culture by being theoretically based on the values as in Figure 1.

3. Method and Findings

With regards to the subject and the aims of this study, qualitative research method is chosen. The following presents information on data collection, analysis, and the findings.

3.1. Data Collection and Analysis

In qualitative method, triangulation process is used in data collection technique and semi-structured and in-depth interviews, and the comments added to a web-based questionnaire form with "Please indicate your comments here, if any, on tax culture in Turkey" statement are used after receiving approval and opinions of three experts.

The study group of the interviews includes two persons who are direct taxpayers. For the open-ended question, the participation of every person above the age of 18 is accepted. In this way, it is aimed to reach a general participant profile without making exception on indirect-direct

taxpayers in order to understand the general tax culture in the country. Therefore, the study group of the relevant sections is comprised of 261 persons that left their comments.

Creswell's (2013:52) inductive approach is used in the analysis to reach the themes through the codes. The coding systems formed with the aim of validity and reliability check are presented to the experts in their subject and its adequacy is approved. In this coding system, 986 coding are established under the themes shown on Table 1.

Table 1. Themes in the Coding System

Themes	Coded Sections
Values	174
Transformation of Values into Behaviors	18
Tax Culture	263
Actors of Tax Culture	85
Transmission of Tax Culture/ Socialization	8
Tax Behavior	121
Tax System	256
Comparison with Other Countries	10
Hopes, Expectations/ Suggestions for the Future	51
Total	**986**

Afterwards, the qualitative data is visualized with MAXQDA program and then network analysis is made.

3.2. Findings

The variety in the demographical characteristics of the participants contributes to the richness of the findings gathered during the research and to the comprehensiveness of the subject (Seggie & Bayyurt, 2015: 15). For this purpose, this study has reached any type of participants around each region in Turkey, as can be seen in the following Table 2.

Table 2. Demographical Characteristics

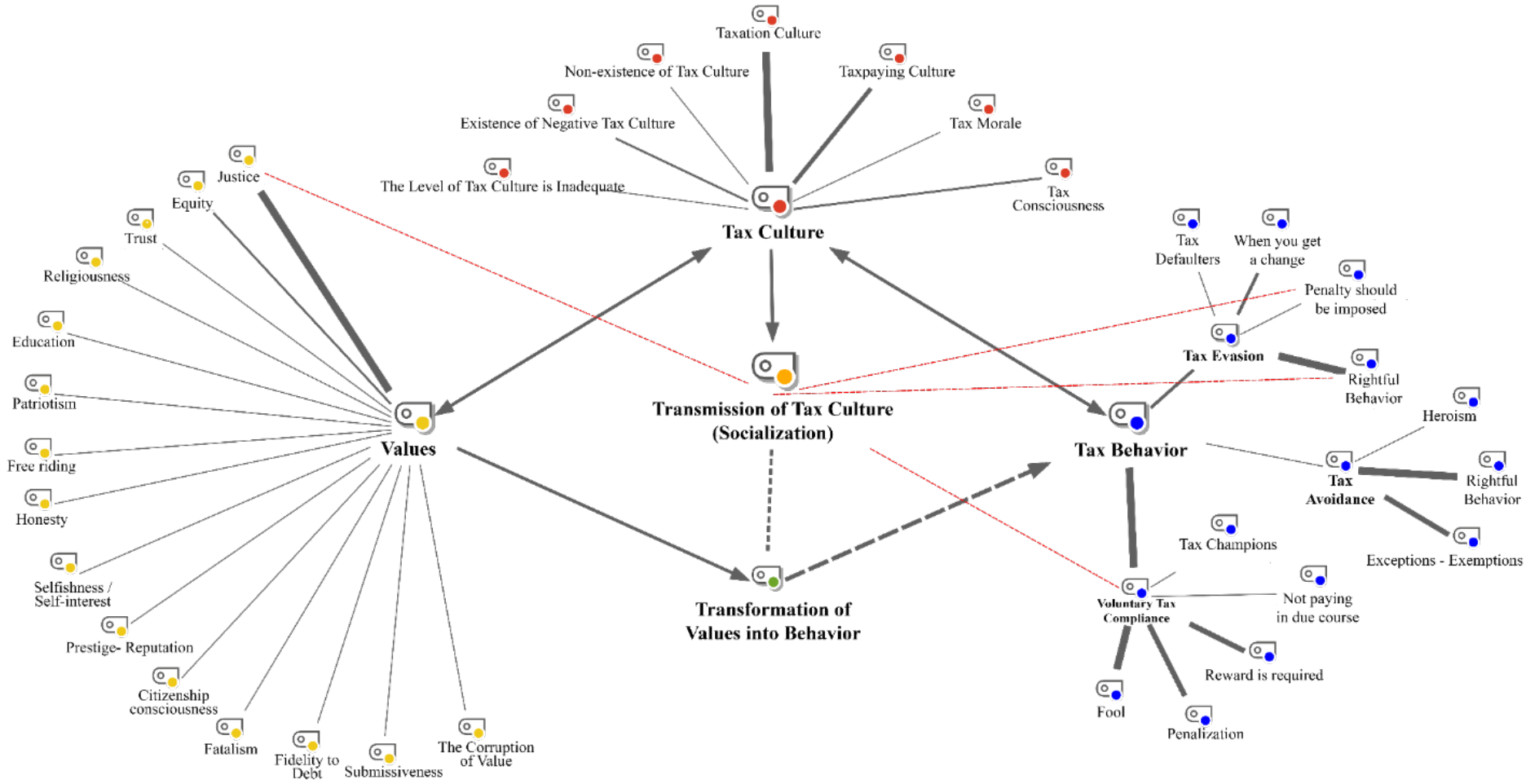
Sex	
Male	211
Female	52
Marital Status	
Single	165
Married	98
Educational Status (Alma Mater)	
Secondary School	2
High school	71
College (2 years)	19
University (4 years)	130
Postgraduate	35
Doctorate	6
Number of Participants based on Regions	
Mediterranean	19
East Anatolia	2
Aegean	50
Southeast Anatolia	4
Central Anatolia	53
Black sea	8
Marmara	127
Total	**263**

When the findings are presented, following the experts' advises, the quotations taken from the participants' comments are used as they are, including the clerical errors.

In the center of Figure 2, which shows the relationship between tax culture and tax behavior as a general model, there are "transmission of tax culture" and "transformation of the values into behavior" because these are the agents that connect the values, tax culture, and tax behavior to one another.

In Figure 2, 3, and 4, thickness of the lines indicates the frequency distribution and red lines indicate the codes that MAXQDA program has found relevant.

Figure 2. General Model



During the in-depth interviews, the participants are asked "Can you describe the tax culture in Turkey?" The participant Ö.K. replied "Unfortunately, there is no tax culture in Turkey. When the rationale behind this thought is asked, the participant explains as below:

> "Tax is like, in people's saying, exaction. Why? Because, when you pay a tax, you look into whether it is fair or not." (Ö.K., Male, Trade, Ankara, 50).

The participant who expresses that tax consciousness is not acquired and personal profit is aimed to be maximized comments as follows:

> "I'm afraid there is no tax culture in our country, the citizens are unaware of what tax is. In the old times, we used to ask the final price during a simple shopping unless we receive a receipt, but we do not know why we do this, our whole intention is to buy goods for a few bucks cheaper." (Civil servant in the public sector, Male, Zonguldak, 35)

When we look into the taxpaying culture, the effect of taxation culture can be clearly observed:

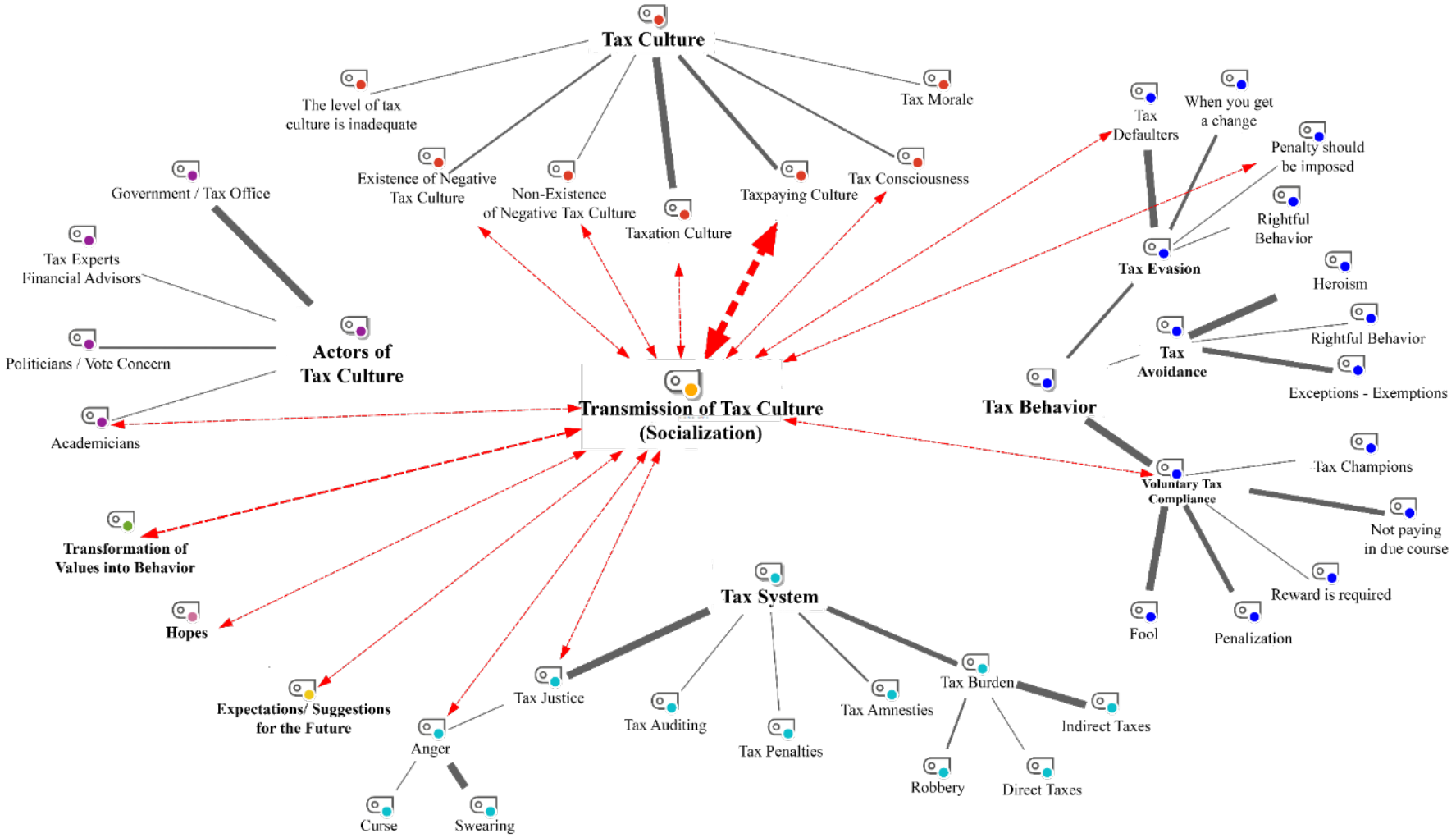
> "Citizens do not fulfill their obligations by thinking that an amnesty will be granted sooner or later." (Unemployed, Male, Mersin, 26)

Recurrently granted amnesties and implementations reinforcing injustice make the payers, who perform voluntary compliance actions, seem like "fool" and "everybody does the same" opinion weaken the taxpaying culture.

According to Figure 3, taxpaying culture is the most effective phenomenon for the spreading of the tax culture in a society.

Within the relationship between the transmission of tax culture and tax system, tax justice and its sub-code anger become prominent. The subjects in which swearing codes in anger can be found are taxation culture, tax burden, indirect taxes, anger against tax evaders, and tax amnesties. Tax justice and anger against tax evaders are the subjects that are cursed.

Figure 3. Transmission of Tax Culture



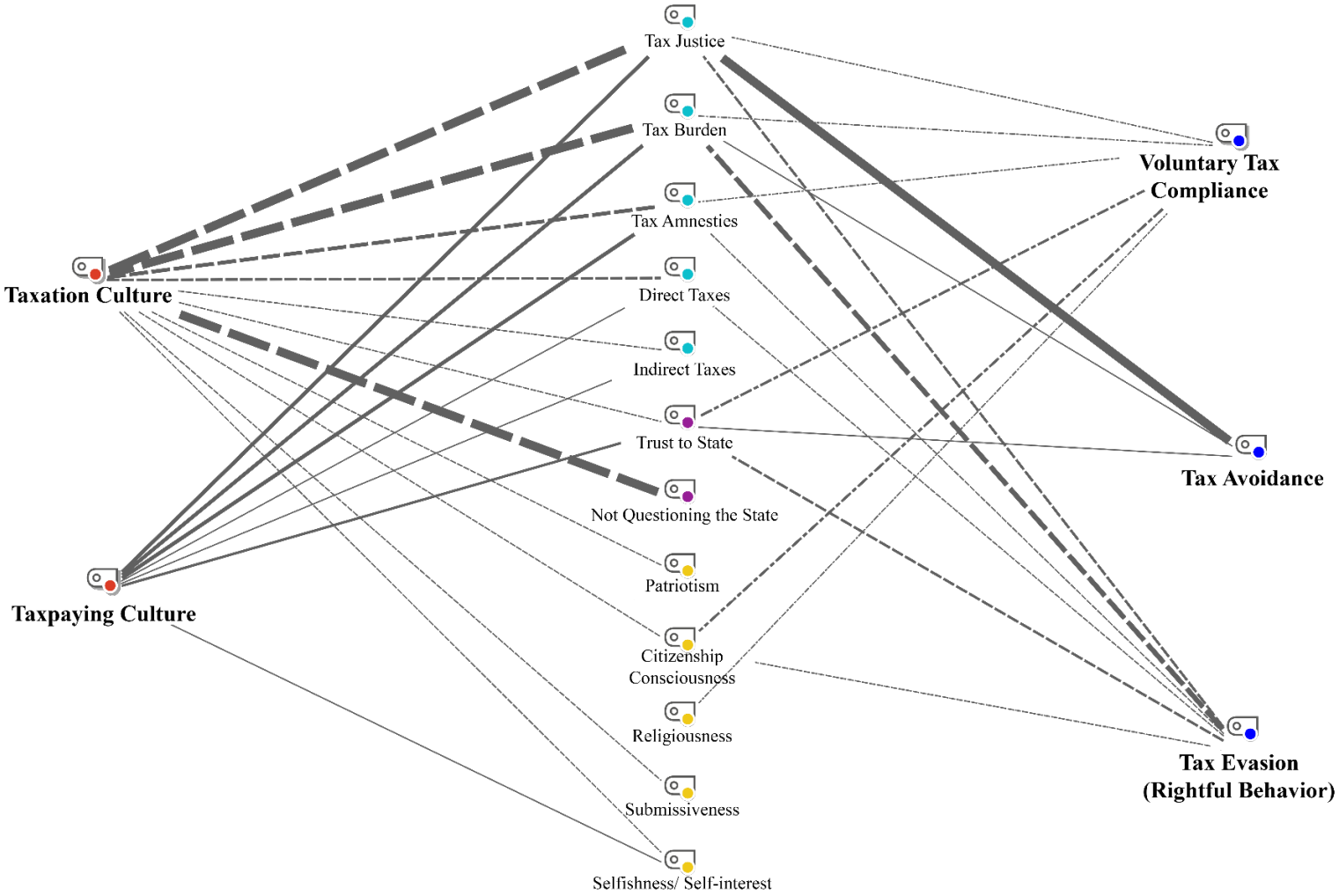
When Figure 4 is analyzed, citizenship consciousness has only connection with taxation culture and tax evasion (a rightful behavior). Regarding the reason why taxpayers hold such kind of frame of mind, a participant's comment, who thinks citizenship and tax consciousness are weak, and the rates submissiveness and not questioning the state are high, can be explanatory:

> "A very, very few people are aware of why tax is collected. Nobody knows how much tax should be levied, and everyone complies with the tax levied that they do not even consider objecting it. Let alone objecting, we do not even wonder where the levied taxes are expended. I think this is quite a bad situation." (Student, Male, Eskişehir, 23)

Furthermore, the ones who consider tax evasion as a rightful behavior correlate this to tax burden and taxation culture. The existence of high tax burden and the competition conditions emerged as a result of amnesties are the reasons behind why they advocate tax evasion as a rightful behavior. The taxpayers justify a false behavior in this way.

Another noticeable point in Figure 4 is that "not questioning the state" code has only connection with "taxation culture" code. That is to say, while taxation culture of the state depends on the payers' unquestioning stance against the state, the taxpayers have not established such connection with their own behavior.

Figure 4. The Effect of the Values



Even though taxation culture is connected with submissiveness and patriotism, it does not have a link with the other codes in the figure. This situation can be explained with the state's collection of tax by depending on its sovereignty power.

4. Conclusion

In this study, it is found out that taxpayers' perception of tax culture is a "negative tax culture" and the idea that justice and equity values are damaged by various tax practices lead the taxpayers to negative tax culture.

In Turkey, the negative state of the codes related to tax in the taxpayers' mind is reflected on their behavior and the taxpaying culture is established on "evasion of tax when you get a chance". Tax evasion is regarded as major crime yet it is stated that tax evasion will not be avoided once they have the opportunity. The problems emerge during the transformation of the values into the behavior cause the growth of the individual type who does not act according to the values. It is observed that values of trust and justice are influential in the occurrence of this situation. Anger and the feeling of being wronged lead the taxpayers to tax avoidance and tax evasion. In other words, taxation culture directs taxpaying culture.

The values that influence the voluntary tax compliance are trust to the state, citizenship consciousness, and religiousness. These values can be made use of for the policies to be conducted. Nevertheless, not only for the tax system but also there should be a policy for the coverage of the public expenditures.

The fact that taxation culture relies on the submissiveness and not questioning the state impacts the taxpayers in a negative way. A tax culture that considers the citizens not only as a taxpayer but as an ally should be created. Alteration of the ongoing negative codes related to tax depends on the policies to be conducted continuously/determinedly. In the presence of the state, policymakers/decision makers should take the values of justice, equity, and trust as a basis. In order to realize cultural shift, all the actors of tax culture are required to be gathered under these common values.

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THE IMPORTANCE OF TAX LITERACY IN TAX COMPLIANCE, SUGGESTIONS TO BE DEVELOPED IN THE CASE OF COUNTRY APPLICATIONS

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Abstract

Taxes are the economic values that are received by the governments voluntary and the tax authorities under the enforcement according to the rules specified by the law. As tax is the most important source of income of the state, the approaches that strengthen tax awareness and increase tax compliance have become important for the revenue administrations. Tax literacy can be defined as having the ability to know and understand the tax-related issues, to follow them, to follow the developments, and to carry out their personal budget in the best way by considering the tax debts to be paid.

This study highlighted the importance of factors that determine the tax compliance in tax literacy and examined arrangements and projects related to tax literacy in the OECD countries and the United States and projects and researches related to tax literacy in Turkey are presented. In the study, it was concluded that the level of tax literacy in our country was not very good and suggestions were made about the activities that could be carried out to increase tax literacy.

Keywords: Tax literacy, tax compliance, tax awareness, tax psychology.

JEL Code: H2, K34, D91, H26

1. Introduction

Tax literacy is a new concept that founded on developed countries' applications bases.Tax literacy can be defined as the individual's understanding of tax laws related to tax liability, fulfilling her/his tax obligations and evaluating the possible tax risks independently in her/his financial environment (Cvrlj, 2015: 158). Therefore, there is a close relationship between tax literacy and tax compliance.

The factors affecting tax compliance are classified as moral, psychological, economic, demographic factors and factors related to tax management (Çetin Gerger, 2011: 9). There is a positive correlation between tax compliance and especially educational levels as a demographic

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factor. Tax awareness of taxpayers also develops with the increase in the level of education. Therefore, compliance behaviors of taxpayers increase (Otto et al., 1987: 304).

Today, developed revenue administrations in the world have changed the taxation approach from "despite the taxpayer" to "with the taxpayer" (Gerçek et al., 2015: 25).In this sense, revenue administrations have an important role in the development of tax literacy. In this study, the concept of tax literacy which is a basic sub-factor affecting tax compliance has been examined and the applications in developed countries and applications, as well as suggestions in our country, are discussed.

2. Factors Affecting Tax Compliance And Tax Literacy

2.1. Factors Affecting Tax Compliance

Taxpayers are generally not willing to pay taxes.For this reason, a field as the behavioral economy which affected psychological factors and examines tax compliance has been developed since 1970.This approach based on taxpayer's behavior and measures developed intrinsic motivation have adopted the principle of "trust is good, control is better". In this case, all the actors in the system determine the tax climate (Alm et al., 2012: 134).

The following figure shows the actors determining tax compliance. The tax climate has occurred as a result of the interactions between taxpayers and other taxpayers, government, tax authorities and accountants. The development of tax literacy ensures that the tax climate between these actors is positively affected.

Table 1. Actors and Determinants in the Formation of Tax Climate

ACTORS	DETERMINANTS	
Government	Governance and regulation, the image of taxpayers, tax law, the tax rate	
Tax Authorities	Images of government, tax accountants, taxpayers, audits, fines	
Accountants	Images of government and tax authorities, taxpayers and their goals	
Other Taxpayers	Taxpayers	Images of government and tax authorities, attitudes, tax morale, knowledge of tax law, norms (personal, social, societal), justice (distributive, procedural, retributive)

Source: Alm et al., 2012: 136.

Nowadays, increasing tax compliance has become one of the important tasks of revenue administrations (Gerçek et al., 2015: 162).Successful revenue administrations have a management process that includes managerial approaches to optimize tax compliance such as risk-based verification programs, simple laws and procedures, taxpayer training and assistance (Russel, 2010: 2). In this respect, programs and sample practices that strengthen the

communication between the taxpayer and the administration, including tax literacy, take place in all developed countries.

2.2. Importance and The Scope of Tax Literacy

A person with a tax literate knows the basic concepts of taxation, has knowledge about the basic function of the tax system, follows the developments, knows the taxpayers' rights, can monitor how the taxes are used, has a positive attitude towards taxation, has a tax morality, knows the place of the tax in the personal budget, can fulfill own obligations related to tax.In this sense, tax literacy is completed by a behavioral dimension after passed through cognitive and emotional dimensions (Yılar & Akdağ, 2017: 368).

Table 2. Cognitive Affective and Psychomotor Domains of Tax Literacy

LEVELS	SCOPE
Cognitive Level	Being able to know the definition of a tax, types of tax, tax legislation, tax rates, important tax payment dates.
Affective Level	Being able to have tax perception, belief in the necessity of tax payments, positive tax attitude, tax awareness, tax ethics.
Psychomotor Level	Being able to fill the tax forms related to tax return Being able to pay the tax debt by the relevant institutions or the internet

Source: Yılar & Akdağ, 2017: 366.

Niemirowsaki, Baldwin & Wearing (2003) research shows that there is a relationship between tax knowledge of taxpayers and tax compliance behaviors.In the survey of Eriksen & Fallan (1996), it was determined that obtaining additional tax information increased tax compliance and reduced tax evasion.As citizens' knowledge of the tax increases, their confidence in government for its used correctly of taxes rises, while incomplete or misunderstanding results in distrust (Kirchler et al., 2008: 216).

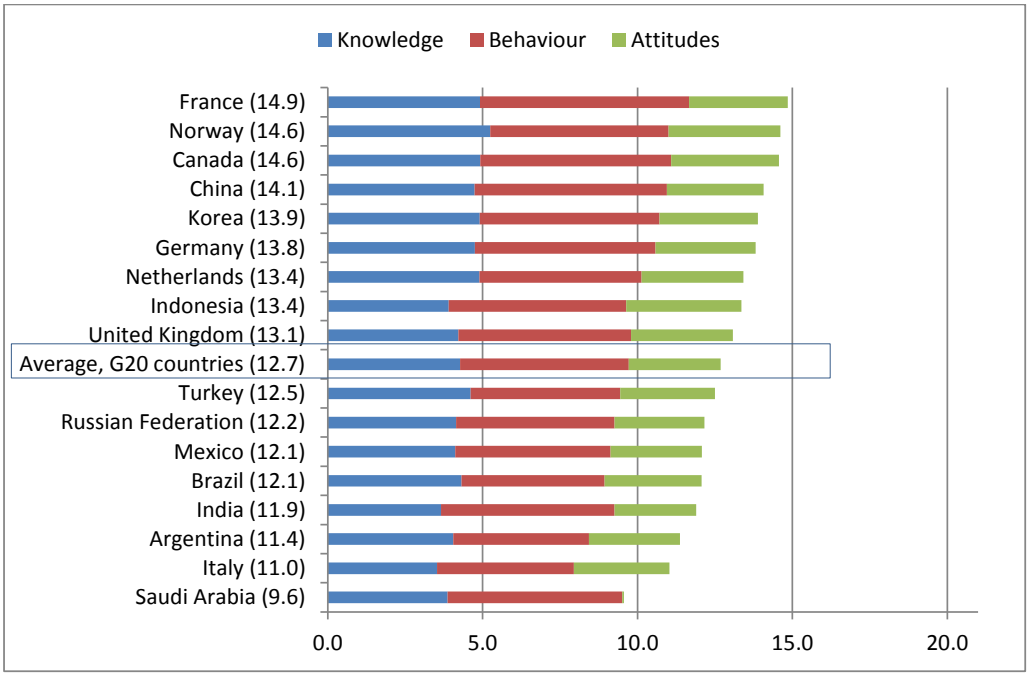
Tax non-literate persons may unintentionally have a higher tax non-compliance (Chardon et al., 2016). The report "Building Tax Culture, Compliance and Citizenship"of OECD emphasized the transformation of state-citizen relations and the importance of cultural change in tax administration. Tax authorities once had a fear culture, but nowadays they recognize citizens not

only as "liability holders" but also stakeholders (OECD, 2015: 17).Therefore, this change requires an understanding of tax perception and increasing tax awareness (Yaltı, 2018: 65). Today, most countries which are the member of OECD recognize the limitations of traditional tax compliance techniques based on enforcement and emphasize on training programs for taxpayers to develop tax compliance and tax morality.

2.3. Regulations Regarding Tax Literacy in OECD Countries

The OECD is a leader in measuring global financial literacy, including comprehensive measurement tools for adults and young people.In 2016, the second international financial literacy assessment report was published covering 30 countries (OECD, 2017: 13).Tax literacy is a sub-field of financial literacy. In order to get a general impression on tax literacy, financial literacy data are included in the research for G20 countries below. The following graph illustrates the data for this research.

Graph 1. Financial Information, Behaviors, and Attitudes



Source: OECD, 2017: 8.

This report shows that on average only 52% of adults reached the level of demonstration 6 of the 9 discussed attitudes in G20 countries.Although national surveys have been conducted in countries for tax literacy, only a report on financial literacy has been published by the OECD.In a report published by the OECD in 2015, tax literacy practices were mentioned in developing countries but did not include a score of tax literacy (OECD, 2015).Level of financial literacy in Turkey (12.5) is located just below the average of the G20 countries (12.7).

2.4. Implementation of Tax Literacy Project in the USA

The general purpose of the Tax Literacy Project carried out at Tulane University in the US is to inform public about taxation and to ensure that US citizens are informed about tax and tax policies and to enable citizens to make rational decisions as participants in future US tax policies.The project, which started in 2013, is still ongoing and supported by the IRS and the media.The project has three different concentration areas: 1. Why we are taxed (the purpose of taxes; the link between tax and expenditure);2. Fairness of taxation (how the tax burden will be distributed, including the tax base and the rate structure);and 3. Basic concepts of taxation.The project is intended for people on all educational levels and all ages between 12 and 80 (https://taxjazz.com/).

3. Tax Literacy In Turkey

There are a small number of studies to measure directly tax literacy in Turkey. In survey Akpınar & Günay (2014), questions were asked about tax literacy and tax awareness for the taxpayers in Kahramanmaraş, and it was found that taxpayers know the %65 name of the taxes in the tax system and %42 in terms of the tax procedures and principles.Teyyare et al. (2018) questionnaires were applied to the students of Abant İzzet Baysal University, and tax literacy levels were found to be above the average level. However, tax knowledge of taxpayers in Turkey is accepted to be low.

In our country, there is no tax lesson at the primary, secondary and high school level, but some lessons contents include tax. The scope of some courses such as “Social Science” course, “Life Science” and “Human Rights” also includes tax liability (Turan & Akdağ, 2017: 370-375).

On the other hand, in order to provide tax-related information to children of third, fourth and fifth-class, in 2007 “VerGİBilir – Training Programme for Developing Tax Awareness in Children” project protocol was signed between the Revenue Administration and the Ministry of National Education.Teachers who took part in the project were given micro tax teaching practice courses in 2009 and the project was completed in 2012.In this context, various books and brochures were prepared and especially the website was established together with the games (GİB, 2008-2014 Annual Reports).

4. Suggestions For Turkey To Improve Tax Literacy

The development of academic literature is required in Turkey to increase tax literacy.However, if these studies are carried out at an empirical level, it will be useful.There should be practices from Revenue Administration which have a widespread effect and which can contribute to voluntary compliance. In the lesson of elementary education should include tax concepts in social studies.

While it is important to increase the tax literacy from primary education, it is necessary for families to inform the children at all stages in order to make positive opinion in tax matters and to spread this to the society. This situation, which is necessary for the development of conceptual

infrastructure, should be given to the people between the ages of 12 and 80 as in the USA appropriate with the philosophy of lifelong learning.

Tax literacy training can be realized at a low cost with the contributions of law and finance students. These applications can also be considered an intern training. It can be an application that will improve the awareness of citizenship as well as increase tax literacy. Compliance levels of taxpayers can be determined by questionnaires before and after these training and a strategy can be developed by the Revenue Administration. In addition, tax literacy training within the scope of digital literacy can be developed in accordance with Industry 4.0.

In order to increase tax literacy, long-term activities will be designed and tax compliance will be increased, thus this will reduce the need to allocate resources to prevent tax evasion and informality. For this reason, it is useful to implement the following recommendations for the development of tax literacy:

- Academic studies should be increased in order to reveal the importance of tax literacy.

- Tax training should be implemented in many areas, not just children, but by selecting specific target groups.

- Taxpayers should be informed about tax guides and brochures and their usage should be increased.

5. Conclusion

Today, global realities are changing rapidly, nation-states' protection of tax revenues is only possible by optimizing tax compliance. The main actor in tax compliance is taxpayers. Education is the most important element that can ensure the compliance of the taxpayer. Many activities to learn many concepts include citizenship awareness, tax awareness, perception of revenue administration, tax perception, tax morality, tax knowledge should be organized at the academic and administrative level to increase and improve tax literacy. In developed countries, academic activities related to tax literacy are higher. Because studies show a positive correlation between tax literacy and tax compliance.

Tax literacy-related activities in Turkey is seen as a more in theadministrative level. For this reason, increasing the academic studies to create tax awareness and increase tax literacy and their implementation in cooperation with administrative works will positively affect tax compliance in our country.

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TAXPAYER BEHAVIOR:
TYPES OF TAXPAYERS CREATED THROUGH TAX SANCTIONS AND INCENTIVES

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Abstract

As with all economic activities of individuals, tax compliance or incompliance is also built with social, cultural and psychological factors. From the complexity of the tax system to the tax penalties, from social and demographic factors to moral and social factors, many dynamics take part in this process. Taking into account that the tax policies adopted may always have unintended consequences, the considerations as to what sort of impacts that tax or other factors might have on the tax world carries importance. On the other hand, the regulation of social relations often takes place under uncertainty, as an agent, individuals can react differently to the uncertainty created by formal rules. As a formal rule, tax sanctions or facilities create different effects on taxpayer behavior and create different types of taxpayers within the system. The basic elements underlying the voluntary compliance with tax are the confidence of the taxpayer to and the perceived power of the tax administration. In this framework, efforts paid on how the determinants of taxpayers' tax payment or non-payment tendencies affect tax compliance process and classification of taxpayers types arising from the process.

Keywords: Tax Compliance, Tax Noncompliance, Confidence in Tax Administration, Economic Approach, Socio-Psychological Approach

JEL Code: H2, H26

In order to explain the tax compliance process it is important to explore how taxation affects human behavior, from socio-political, cultural and social perspectives as well as financial and economic ones. A review of the literature reveals many publications that aspire to do this.

The initial approaches to this subject in the field of financial sociology focus on macro sociological efforts. These developments deal with the role of institutions and classes, the regulating capacity of the state and macro level conflicts of interest as the major factors that define the role and position of the state. Recent studies on the other hand emphasize micro variables such as taxpayers' motivations and strategic decisions, and variables such as social relationships and interactions. There is no doubt that micro variables are sociologically important in this framework

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and that different interpretations underlie the compliance tendency and behavior of each individual.

Tax compliance is defined as voluntary fulfillment of tax liabilities fully and completely or willingness to pay taxes, while not fulfilling these liabilities is called tax noncompliance. What needs to be noted in this framework is that, tax compliance implies behaving in accordance with the letter and spirit of the law, without any need for force (James and Alley, 2002: 32, Saruç, 2015: 23). Indeed, it is found that historically when compliance involves willingness the taxation of construction process is healthy, while constant interventions that reorganize the compliance process are needed in societies where it does not. After all, tax sanctions and incentives (TSIs) can be considered an indication of these interventions.

The literature on compliance has been created mainly by *economists* who emphasize dissuasiveness and *sociologists* who emphasize social norms in the context of social limitations as critical factors that affect tax paying behavior (Roth, Scholz and Witte, 1989). The economic approach, which views the taxpayer as a *rational* individual, Assoc.s tax compliance with economic factors and the factor that motivates the decision of the taxpayer has been reduced to a cost-benefit analysis. In the economic model dissuasiveness, related to monetary penalties and probability of inspection, is highlighted. In this context, factors such as income levels, tax rates, probability of inspection and penal sanctions are more influential on taxpayers' decisions to pay taxes or not.

Although the economic approach reveals an important issue, other studies have pointed out the limitations of attributing tax compliance behavior merely to economic factors, and it is these deficiencies and limitations that have laid the grounds for sociological and psychological approaches to tax compliance. The psychological approach traditionally considers the effects of norms on tax compliance in the scope of the *theory ofmoral emotions*, focusing on individual socio-psychological variables such as moral beliefs, attitudes and perceptions about tax compliance (Alm et al., 1995; Bobek, Hageman and Kelliher, 2013: 451). The sociological approach on the other hand, focuses on the importance of social limitations and norms in managing noncompliance to taxes and other laws. The impact of socialization is higher than the impact of conscious action on individual behavior and what is considered moral behavior in terms of compliance is dictated by internalized norms.

When factors that affect the compliance process are evaluated with these approaches each has distinctive effects. Yet, when the process of tax compliance is considered to be the complete set of relationships between the state and the individual, it can be explained by considering different factors. Through these factors it is possible to see how the tax compliance process is constructed with a focus on the taxpayer and the state.

Both positive and negative relationships can be found between all of these factors and tax compliance and it is possible to say that social and psychological factors are the main source of this relationship.

Considering the perspective brought by economic sociology together with economic and psychological approaches, it might be possible to reach a holistic perspective towards the state-taxpayer relationship, since the taxpayers' social connections lie behind their tax compliance

behavior. And the marks of these connections can be seen in the relations and interactions of the taxpayer with other taxpayers, with the state and even with the society as a whole.

What will be the direction of the interaction that determines this relationship? Cooperation or conflict? Relationships based on trust or on power?

The way that the state obtains the financial resources it needs to fulfill its functions is reflective of the profile of its relationship with individuals. The response of a society to the taxation system and the tax authorities is multidimensional and not constant, and therefore it is necessary to examine the social relations as much as the technical and administrative processes (Braithwaite, 2002: 16).

Taxation represents the area where this *tacit agreement* between the state and the individual becomes visible and is the product of co-existence as a society. The state-taxpayer and taxpayer-taxpayer interactions are shaped in the realm of taxes that include formal and informal rules, duties and rights.

When taxation is viewed as a dynamic relationship between the taxpayer and the state, this relationship always carries a potential for conflict. This conflict stems from the fact that the state-taxpayer relationship operates in a covert/hidden disorder. Therefore, the state is always in search of new rules to be able to manage the noncompliance process of the taxpayers. The state authority, which is the warrantor of social order in the modern world, tries to respond to this potential for conflict with new forms and rules of taxation (Martin, Mehrotra and Prasad, 2009: 3). In this framework, sanctions and incentives can be considered new forms of these ever changing rules.

Another interaction between the state and the taxpayer in terms of tax compliance is related to the factors of *trust* and *power*. It is possible to say that the state, which holds the substantial portion of power, has a more concrete and visible role in establishing trust. However, since interaction cannot be in one direction, it is important not to neglect the role of the taxpayer in the establishment of trust.

When tax compliance is examined from the perspective of trust, socio-psychological influences gain importance and the analysis is predicated on issues such as *justice, transparency, convenience of the process, the clarity of the system, determination of the rights of the taxpayers* and *the taxpayer having a voice,* as the determinants of trust towards the tax administration.

The factor of power, on the other hand, is determined according to the inspection and punishment potential of the tax administration and is related to *the degree to which the taxpayer feels this power, the sanctions, the probability of inspection, the probability of penalty and the severity of the penalty*. In this framework, the main indicator of the power of the tax administration is the sanctions it applies (Tyler 2001: 233-234).

When we look at the Turkish taxation system, the sanctions applied to the taxpayer, the tax responsible party or other concerned parties are monetary sanctions (financial penalties), restriction of freedom, deprivation of rights or public disclosure of names (Şenver, 2017: 93-94). Tax incentives on the other hand include tax amnesties, reconciliation, exemption and exceptions, tax deferrals and statute of limitations. These are all considered efforts towards

increasing tax compliance. However, tax sanctions and incentives do not always lead to the expected results or help create the desired type of taxpayer.

The role of TSIs in the system, the intervals between their use and the frequency of changes in them will determine the direction of the interaction between the state and the taxpayer. If social organization, institutional structures, the civic and technical environment of daily life is continuous and balanced, and if these continue to operate regularly and predictably in times of change, then it is likely that a *culture of trust* and therefore tax compliance will be achieved (Sztompka, 1997: 13). Contrarily, as demonstrated by applications of tax amnesties and reductions, frequent changes and repetitions accelerate the loss of that culture.

The taxation system of a country and the TSIs in that system, as explained above, are linked to a number of factors that are determined by economic and socio-psychological approaches and cause certain responses and behaviors among taxpayers against taxes. The consequences of taxpayers' behavior are categorized using various methods and certain taxpayer typologies are identified accordingly.

These taxpayer typologies we try to identify in this study are based on the tendencies of the taxpayers in the face of TSIs. The interaction that emerges between actors as a result of TSIs and taxpayers' behavior in response to each situation based on the determinants that support this interaction lead to these typologies.

The direction of interaction is based on the factors of conflict, cooperation, trust, power and pressure. Conflict and cooperation determines the form of interaction between the state and the taxpayer. Conflict is an ordinary part of social life. Since actors in a society compete for resources, their interests are organized by conflict rather than norms and values. Although conflict seems negative, since it involves opposing views, it can turn the direction of interaction towards cooperation by allowing the rules of the taxation system to change. Cooperation might arise without raising any conflict, or as the result of conflict.

Trust and power on the other hand are the social mechanisms that organize these forms of interaction. Establishment of trust is important because it will popularize behavior that leans towards cooperation and actors develop mutually. However, since the state and the taxpayers will look out for their own interests, there will be a constant struggle of power. Powerful actors will be able to gain advantage by applying pressure on others.

In the light of these insights, we can identify there types of taxpayers:

The first type is the *obligated compliant* taxpayers, which arise because sanctions create an atmosphere of conflict and highlight the factor of power, and taxpayers tend to pay more because they feel pressure.

Secondly, when there is a shift from sanctions to incentives in the interaction between the state and the taxpayer, an atmosphere of cooperation is created where a taxpayer-centered understanding develops and the *complianttaxpayer* type emerges.

Third, when applications like tax amnesties and reductions lead to a combination of conflict and cooperation, and cause the factors of power and trust to operate together, it leads to the *strategic taxpayer* type to emerge, which behave strategically, according to their expectations.

Conclusion

Knowing what taxpayers want is a significant advantage for the authority. One of the fundamental reasons for the ineffectiveness of many authoritarian governments is known to be the lack of information on people's preferences. The more pressure is applied the less the government will learn about the citizens' preferences and opinions about the government, and the harder it will be to build a relationship of trust. People or institutions, even if they are honest, will attempt to avoid their tax liabilities if they do not believe that the government will not respond to their demands. Therefore, governments need information about the services that the citizens expect in order to be able to respond to these demands, and the people need motivation that these services will be provided (Wintrobe, 2001: 13). Where trust between the taxpayer and the state is high, the costs of economic actions will be reduced and tax revenues will increase, since people's behavior can be foreseen (Knack and Keefer, 1997: 1252).

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STRUCTURAL EQUATION MODELING IN TAX COMPLIANCE

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Abstract

Because the concept of tax compliance is related to the voluntary fulfillment of taxpayers' tax liabilities, it is important in terms of both taxpayers and governments. Thus, more and more scientists studying in the field of public finance have been willing to study in tax compliance. It is known that the survey method is widely used in the field surveys conducted for tax compliance. The data collected in these studies based on the questionnaire method were mostly subjected to frequency analysis and parametric or nonparametric tests. In recent years, the data obtained from the field studies conducted for tax compliance have been assessed within the scope of structural equation model. As structural equation modeling is based on explanatory factor analysis and confirmatory factor analysis, it is qualified to be a stronger and more reliable statistical method. In this study, it is aimed to deal with the various aspects of structural equation modeling which is important in terms of reaching more reliable results from the data collected via questionnaire method and hence getting better guide for the policy makers. In this regard, the studies which were conducted for Turkish taxpayers' tax compliance and especially the ones regarding the structural equation modeling in the issue have been taken into consideration. Finally, in the light of previous studies on the issue, all the stages needed for the successful results in regard of the structural equation model are rigorously elaborated. Thus, it is possible to claim that this study may make a modest contribution for more reliable results leading the researchers to use a structural equation modeling.

Keywords: Tax Compliance, Confirmatory Factor Analysis, Explanatory Factor Analysis, Structural Equation Modeling

JEL Code: H26, H29

1. Introduction

The tax compliance of taxpayers can be defined as a concept regarding whether taxpayers fulfill their tax duties fully.Therefore, many academicians studying in the field of public finance want to conduct a field survey in the framework of tax compliance.

When it is examined the studies regarding tax compliance from the perspective of Turkey, it is seen that a lot of field research under different headings have been conducted since nearly a quarter-century. It is known that these field studies are mostly applied based on surveys. However, in these studies, it is seen that the collected data are mostly analyzed by means of the frequency analyzes and the parametric or the non-parametric tests (Saruç, 2015: 75-89).

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The survey studies regarding Turkey within the context of tax compliance have particularly started to be conducted from the point of structural equation modeling in recent year. The structural equation model allows to the analysis of the survey data within the framework of a model based on the hypotheses developed after stronger tests. In this context, this study which is based on structural equation modeling aims to help the scientists who will conduct research concerning tax compliance.

2. Methods Used in the Studies Regarding Tax Compliance of the Taxpayers

Under this heading, the conceptual framework for tax compliance and the methodology used in tax compliance studies are explained.

2.1. Conceptual Framework For Tax Compliance

The concept of tax compliance which means the complete fulfillment of tax liabilities (Yurdadoğ et al., 2016: 806) is related to both tax evasion behaviors (Saruç, 2015, 30-31) and tax avoidance tendencies (Didinmez, 2018: 10). In addition, it is seen that the tax compliance phenomenon is discussed within the framework of the fiscal and non-fiscal purposes of the taxation (Biberoğlu, 2006: 128-129).It is also known that tax compliance is related to many factors. These factors can ranked in the form of tax audit, administrative fines, tax rates, the using of tax expenditures, tax information, participation in decision processes, norms, justice perception, tax morale (Yurdadoğ, et al., 2016: 809-812). Therefore, theoretical and practical studies within the scope of tax compliance get attention.

2.2. Methods Used concerning the Applied Studies Conducted Within the context of Tax Compliance

When the applied studies within the scope of tax compliance are examined, the dividing into three main categories of the methods like the official data, experiment and questionnaire which are used in these studies draws attention. (Saruç, 2015, 71). On the other hand, the studies on based interview regarding tax compliance constitute another category (Didinmez, 2018: 94). However, when the applied studies conducted as to tax compliance both in Turkey and abroad are dealt together, although the questionnaire studies are predominant and conducted in all segments of the society, the fact that the experimental studies consist mainly of the students which are used as subjects reveals another important consideration (Saruç, 2015, 72-139).

3. Structural Equation Modeling In Tax Compliance

When tax compliance studies conducted in Turkey for 1993-2013 years has examined, it is seen that the data of survey have mostly been analyzed by means of frequency analysis, parametric or non-parametric tests (Saruç, 2015: 75-89). The discussed topic gains important in terms of this. But, in recent years, the field surveys conducted for Turkey has been started to be evaluated in

the framework of structural equation modeling. Thanks to this differentiation, the expressions of the attitude directed to the participants through the survey are tested in the framework of a model by being used implicit (latent) variables. Thus, tax compliance studies based on questionnaire are explained through hypotheses supposed within the scope of a model. Under this heading, firstly, the tax compliance studies implemented concerning the structural equation modeling and conducted regarding Turkey are discussed. After that, the conceptual framework for structural equation modeling and the method to be followed for the establishment of this model are explained.

3.1. Structural Equation Modeling Practices For Turkish Taxpayers' Tax Compliance

The data which are made from the questionnaires in the studies concerning Turkey by Yeniçeri & Çevik (2014), Giray et al. (2015), Yıldırım et al. (2016), Argan & Devos (2017), Yücedoğru & Sarisoy (2018) have been assessed within the scope of structural equation modeling. In each study, implicit variables for the models were identified and the effects of these implicit variables on each other were revealed. Hypotheses have been formed for each effect. In this context, the models were tested through compliance tests. According to the test results, the relationships between latent (implicit) variables were considered as statistically significant and in related to the effect levels were made interpretations.

3.2. Conceptual Framework for Structural Equality Modeling

The structural equation modeling presents a strong and flexible view to analyze the data provided from the participants. On the other hand, it takes into account multiple relationships included complexity between observed and unobserved variables (Hershberger & Marcoulides, 2013: 3).

Structural Equation Model provides several advantages;

-The Hypotheses can be observed easier with a visual appearance.

-The hypothesis is easily tested by means of fit indices.

-Compared to other statistical methods, it is a more adopted method (Meydan & Şeşen, 2015: 5-6).

3.3. Conceptual Framework for Structural Equality Modeling for Future Studies

The first step in constructing the structural equation modeling is to determine the model. In the definition of the model, the causality relations between the variables that are subject to the model should be drawn as formal (Bayram, 2016: 52).

The variables that are subject to the model are latent variables. Hypotheses are developed depending on the causal relationships between latent structures. On the basis of hypotheses, the relation of latent variables with each other should be indicated by arrows (Civelek, 2018: 47).

The literature related the structural equation model defines the latent variables as factors, dimensions or structures. In addition, it qualifies the observed variables as expressions or items directed to participants (Bowen & Guo, 2012: 17).

One of the first analyzes in regard to being tested the structural equation model after collecting data is explanatory factor analysis (Civelek, 2018: 32-33).Measurement of the structure subject to latent variables is made through explanatory factor analysis and during this analysis are benefited from the observed variables (Bektaş, 2017: 41).

In order to apply the explanatory factor analysis, the number of the participant should reach at least fivefold level of the observed variables in the data set (Aksu et al., 2017: 8). According to the result of the analysis made in SPSS[1], KMO[2] value should be greater than 0.6 and the result of the Barlet test should be significant (P <0.05) (İslamoğlu & Alnıaçık, 2014: 403). However, each factor load subject to the factor rotation application should be greater than 0.3. Thus, it is reached to conclusion that the factors are related (Özdamar, 2017: 155-156). At the same time, the reliability analysis of the factors or the dimensions (latent structure) that contain different expressions should be done for each the factor or the dimension. As a result of these analyzes, the Cronbach's Alpha value for each dimension or factor which is greater than 0.70 indicates that there are internal consistencies of the factors or the dimensions (Bektaş & Ulutürk Akman, 2013: 128-129).

The structures generated by explanatory factor analysis are controlled by means of confirmatory factor analysis. (Özdamar, 2017: 229). Confirmatory factor analysis helps to determine how data fit within the model can be done. In addition, confirmatory factor analysis is one of the methods that allow the testing of models and equations. Confirmatory factor analysis is also considered as a concept which is included in structural equation modeling (Child, 2006: 108).

The results of the test revealed by means of confirmatory factor analysis is correlated the fit scales. However, these fit scales should be within the range of good fit values. In particular, good fit values for five fit scales (CMIN / DF, CFI, AGFI, GFI, RMSEA) are important (Civelek, 2018: 18-19). The results of the Chi-Square Goodness of Fit or General Model Fit test (CMIN / DF) should be less than 3. This test reveals data-model fit. The Values regarding other fit tests are as follows; Comparative Fit Index (CFI) /higher than 0.95, Adjustment Goodness of Fit Index (AGFI) / higher than 0.90, the Goodness of Fit Index (GFI) / higher than 0.85. In addition to these, the index value related to the Root Mean Square Error of Approximation (RMSEA) should be less than 0.08. The good fit values of the fit indices reveal that the model is compatible with the data (Meydan & Şeşen, 2015: 31-36). These tests can be done through programs like AMOS, EQS, LISREL etc. (Özdamar, 2017: 185).

The test results of the confirmatory factor analysis based on the fit scales indicate whether or not the structural equation model should be tested. If the fit indices for the confirmatory factor analysis does not contain the expected values, it is not important to test the structural equation modeling (Civelek, 2018: 32-33). The structural equation model is tested as in the confirmatory factor analysis (Özdamar, 2017: 245). Within the scope of structural equation modeling, good fit

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values regarding fit indices (CMIN / DF, CFI, AGFI, GFI, RMSEA) are important (Bayram, 2016: 74-80). The most significant difference between testing the confirmatory factor analysis and testing the structural equation model is that in the structural equation model, the effect between the latent variables is revealed as one-way within the scope of causality relationship. On the other hand, in confirmatory factor analysis, tests are applied based on the assumption that there is a mutual relation between latent variables, regardless of causality relationship (Schreiber et al., 2006: 324-326).

4. Conclusion

In recent years, the survey data regarding Turkey related tax compliance have been started to be assessed within the scope of structural equation modeling which is accepted as safer method. In the meantime, it is thought that these studies will rapidly increase in the future. On the other hand, the concept of structural equation modeling has been dealing both in the form of detailed applications and in the context of intensive content theoretical knowledge in statistics books. Therefore, the issue of how to adapt the structural equation model to the field studies for tax compliance has important.In light of all this information, it can be said that this study will make a modest contribution for those who would like to evaluate the survey data regarding tax compliance within the scope of structural equation model.

The process of implementation of the structural equation model is as follows; the establishment of the model and creation of the hypotheses, the fictionalization of the items in scale, the implementation of the explanatory factor analysis for the data provided with of the survey method, the testing of the fit indices within the context of confirmatory factor analysis by taking into account the results of the explanatory factor analysis, the testing of the fit indices within the scope of structural equation modeling according to the results of fit test for confirmatory factor analysis, the reaching to conclusion of whether the model is compatible with the data regarding to the results of the test, the interpretation of the level of effect between the latent variables within the model if the results are consistent with the data.

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TRANSITION FROM ECONOMIC GROWTH TO GREEN GROWTH: GREEN BUDGETING*

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Abstract

The 20th century has been a period in which the nations have made remarkable progress in terms of economic, social and technological aspects, and the national incomes rose rapidly especially for the nations that completed the industrialization process in the early period. While all these advances have taken place rapidly, the capacity of the environment, which is the area where the natural resources and the constant interaction with the nations and constitute the direct source of all the lives and activities of the nations, have been ignored. Within the framework of this view, all living and non-living beings in the world have been used for the welfare and happiness of communities. Today, the effects and possible consequences of the natural resources put forward by the scientific circles, the reduction of biodiversity, acid rains, deforestation, depletion of the ozone layer, environmental pollution, and finally global climate changes, also called global warming, began to change the view of the environment from the utilitarian to the ecological-centered view. This study aims to signify "green budgeting" as a tool to states in accordance with the ecological perspective against environmental problems and to demonstrate the tool components of green budgets. In the study, firstly the rationale of green budgeting will be mentioned and the components and necessities of green budgeting will be indicated. As a result, our evaluations and suggestions on green budgeting will be given.

Keywords: Environmental problems, sustainable development, green budgeting, environmental taxes.

JEL Code: Q56, Q01, H61, H23.

1. Introduction

Since 1970s, human activities, especially economic ones, caused by environmental destruction and extinction scientists are brought to the agenda. Our current period was called as Millennium Age, and it was met with great expectations in technology and science. While the advances in technology and science do not make the expectation unfair, increasing global warming and the threat of global climate change have brought a period in which societies such as melting of glaciers, rising temperatures and tsunami disasters are deeply affected and thus the debates on this issue are spreading from the scientific circles to political circles. The fulfillment of the requirements for the prevention of possible environmental disasters has come to the fore. On

* This study was derived from the unpublished master thesis titled "Green Budgeting Approach and Evaluation" at Dokuz Eylül University, Graduate School of Social Sciences.

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the other hand, it is considered that actions should be taken to reduce the effects of catastrophes irrepressible ones) on society, nature and economy cannot be prevented.

Many countries, especially in Scandinavia, and in Western Europe, have been updated in the context of green financial reform, although not called as in concept of green budgeting. In this study, firstly, the relationship between green budgeting and environmental problems within global warming will be examined. Then, with the concept dimensions of green budgeting and the basic policy tools it contains, and the necessities of green budgeting will be stated. Finally, our evaluations and suggestions on green budgeting will take place.

2. Rational of Green Budgets

Green budgeting consists of a set of fiscal policy measures and rules to prevent environmental problems and to improve existing damage. Before explaining the conceptual aspect of green budgeting, we prefer to include environmental problems in the forefront today and to address global warming measures and the relationship between budgetary functions and environmental problems.

2.1. Global warming

Efforts to reduce carbon dioxide emissions in the fight against climate change as a result of global warming have begun to be demonstrated by various initiatives since the mid-20th century. R & D studies for renewable energy sources, carbon capture, and new technologies providing energy efficiency are considered as measures to reduce carbon dioxide emissions. It is another policy that the government can develop incentive mechanisms that can reduce carbon dioxide emissions by directing the market economy. Some of these incentive mechanisms are as follows (Krugman & Wells, 2011: 250-251);

- Implementation of carbon taxes foreseen to be paid by carbon dioxide emissions,
- Determination of the upper limit of carbon dioxide emission,
- Implementation of the licensing system for the upper limit of greenhouse gas emissions in carbon dioxide and
- Development of trade system.

The carbon tax, which is one of the recommendations for reducing carbon dioxide emissions, aims to reduce the amount of carbon dioxide released into the air. Environmental tax practices in effect for this purpose are Assoc.d with the polluter pays ın principle.

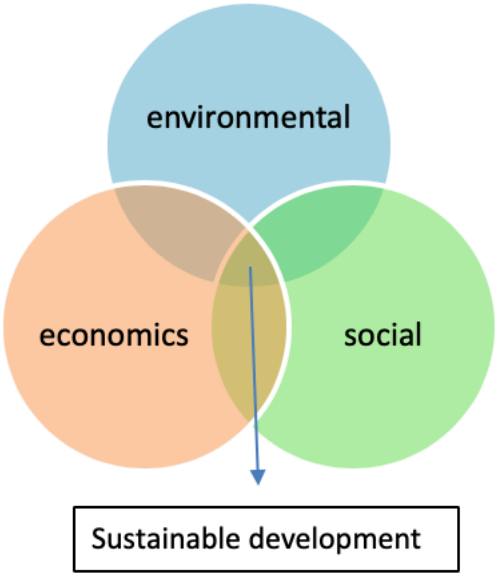
2.2. Relationship between of modern functions of budgets and environment

Since the publication of Pigou's Economics of Welfare (1928-1932), policy makers, researchers, and environmental rights advocates have discovered that economic instruments are means of internalizing environmental externalities (Milne, 2014: 5). The fact that the activities that are harmful to the environment are obliged to pay the cost to the extent that they reduce the social

benefit, and they aim to influence the economic behaviors in favor of the environment. On the other hand, rewarding economic activities that have a positive impact on the environment and increase social benefit is recommended as another way to influence behaviors in the desired direction. Nowadays, while the mechanisms of rewarding actors who have a negative effect on the environment or those who have positive behaviors towards the environment in the basic framework are applied in different ways within the components of state budgets. Regulatory measures and legal limitations are also enforced for environmental purposes. Due to the developments, different functions and tasks were started to be installed in the 21st century, and the economic role of the state was reorganized and the function of regulating and controlling from interventionist function started to be weighted (Demircan, 2006: 49).

Today, economic growth and economic stability alone do not make sense in terms of success. Sustainability of growth and stability realized due to the economic progress is crucial. For example, when Argentina was an important economic giant at the beginning of the nineteenth century, but today it is not included among the developed economies. Today, the environment we see confirms our opinion. Again, in recent years, the gained rapid economic growth and expansion of private economy in especially China, India, Mexico, South Africa have been leaded by low-wage policy, technology transfer, etc. These rapid economic progress mentioned above are often discussed in the literature whether it may be sufficient for both environmental and economic growth.

Figure 1. Sustainable development scheme



Source: Aksu, 2011: 6.

As shown in Figure 1, sustainable development is an ideal that can be achieved not only by economic progress but also by progresses in the social and environmental fields. Therefore, it is

an inevitable requirement for a budget policy that includes the development objective also to carry environmental objectives and to take action for them.

Green budget instruments mostly operate to equalize social costs with the costs incurred by those who carry out activities. That is to say, thanks to an internalizing Pigouvian tax, the difference between social cost and private cost is tried to be met and the cost reflected to the society is reflected in the market price.

Due to a production or consumption activity in which they do not participate, the individuals and society affected by the benefit function in the negative sense can be damaged in a concrete way or in an abstract manner. The social costs and private costs may be equalized by introducing tax, fees and other financial obligations over environmentally damaging activities or on the product resulting from environmentally harmful production processing. This may partially resolve the disruptions in income distribution.

3. Green Budgeting

Green budgeting is also referred to as ecological budgeting and environmentally sensitive budgeting. Since the 1970s it has been discussed from time to time that financial instruments need to be actively used in policies to overcome environmental problems and achieve sustainable growth.

Environmentally responsive budgeting first came to the fore in the Aalborg Convention signed in 1994. The International Council for Local Environmental Initiatives which support local activities for global sustainability and to support cities to be sustainable, flexible, resource-efficient, protecting biodiversity and low-carbon-emission had developed green budgeting approach Kılıçer, 2017: 118).

Green budgeting or environmentally sensitive budgeting is defined as a budgeting approach applying of budget policy instruments to achieve environmental goals. Green budgeting helps to achieve environmental goals, as listed below.: (OECD, http://www.oecd.org/environment/green-budgeting/, 20.02.2019)

- Evaluating environmental impacts of budgetary and fiscal policies
- Assessing their coherence towards the delivery of national and international commitments,
- Contributing to informed, evidence-based debate and discussion on sustainable growth.

The Paris Collaborative on Green Budgeting was launched by the OECD Secretary-General Angel Gurría at the One Planet Summit in Paris on 12 December 2017. The aim of this collaboration is to align national policy frameworks and financial resources to achieve a lower level of greenhouse gas emissions and environmentally sustainable development in order to meet the Aichi Biodiversity Goals as well as United Nations Sustainable Development Goals. *(OECD,* http://www.oecd.org/environment/green-budgeting*/,* 20.02.2019).

Collaboration is an open research platform where experts on environmental, tax, budget and financial issues work on the necessary analytical and methodological basis. To develop, test and

propose tools (such as volunteering mechanisms or green budget report) to develop and support the Green Budget Strategy (such as voluntary mechanisms or green budget reports) are the for the purposes of the experts involved in the cooperation. (OECD, https://www.oecd.org /environment/cc/Flyer-Paris-Collaborative-on-Green-Budgeting.pdf, 30.12.2018)

Table 1. The Mix of policy instruments for green budgeting

Policy Tools	**Contents**
Voluntary mechanisms	Promotion, persuation, exhortation, moral appeals
	Information, education, and training
	Empowerment of third parties (non-government organizations)
	Voluntary standards-setting process for industry
Government regulations	Direct regulations (legistlation, standards)
	Planning (land use, resource management)
	Emissions and product standards
	Empowerment of third party regulators
Public expenditures	Government programs and delivery
	Public infrastructure development
	Financial incentives (subsidies, grants, and tax allowences) to promote, for example: Research and development Environmental technology Resource management Environmental protection
Government taxation	Taxes, levies, charges and fees

Sources: Gale & Barg, 2013: 3-4.

- **Voluntary mechanisms**: consist of the means by which state firms and households take measures to develop behavioral measures toward to increasing environmental awareness.
- **Government regulations**: include the regulatory measures of the state as a legislator.
- **Public expenditures**: tax deductions within the scope of subsidies, preventive and corrective public expenditures, direct transfer payments, investment expenditures for developing cleaner technologies.
- **Government taxation(public revenues):** public revenues (taxation): Includes taxes, fees, dues, charges, and other public revenues collected for environmental purposes. To be counted as an environmental tax for a tax, it must have an environmental impact that is not less than its financial purpose. Environmental taxes are undoubtedly the most

prominent tools in public revenues covered by the green budget. The distinction between environmental taxes made by Eurostat (2010) and generally accepted in the literature is as follows: energy taxes, transport taxes, pollution taxes and raw material taxes. Among the environmental taxes, the highest tax revenues gained by taxes levied on energy consumption and taxes on transportation. However, if the encouragement of these taxes in addressing greener behaviors of consumers and producers is a matter of debate.

Various envioronmental policy tools withing fiscal policy could be applied in a country according to law. Design components of environmental taxes and eco-fees are summarized in Table 2.

Table 2. Environmental tax and eco-fee design components

Theory	Triggering Event	Rate
Pigouvian tax (tax effects results ; no private benefit required)	Environmentally damaging activity	External costs
Baumol-Oates' tax (tax effects results ; no private benefit required)	Environmentally damaging activity	Rate necessary to achieve standard
Public trust eco-fee (private benefit is access to public assets)	Intrusion into public asset	Govenmentally determined value of public asset made available for private use
Licensing eco-fee (private benefit is access to limited market)	Environmentally damaging activity	Cost government decides to impose to achieve desired level of funding for related environmental purposes
Regulatory eco-fee (private benefit is right to pollute)	Environmentally damaging activity	Cost government deems appropriate
Regulatory eco-fee (private benefit is government mitigation program)	Environmentally damaging activity	Cost government decides to impose to achieve desired level of funding

Source: Milne, 2014: 13

3.1. Requirements for green budgets

- Political resistance: the existence of an eager political atmosphere in conducting environmental policy and in the implementation of the plan of actions- in short, medium and long term- consistently is important in achieving successful results in the long term.
- Loosened the principle of non-allocation for environmental tax revenues: to implement an allocation of environmental tax revenues to be determined only at environmental rates (such as reducing energy consumption, relocating renewable energy sources instead of fossil fuels, reducing pollution-causing activities, repairing existing environmental damage) will also be beneficial in terms of voluntary compliance with taxes.
- Establishment and revise the legal infrastructure to the extent possible to implement a green budget.

- Establishment the policy mix: environmental considerations should be taken into account and the environmentalist approach should be integrated into the set objectives when developing economic and social policies. Undoubtedly, it is only way to make possible to reach targeted improvements in the environmental area and the prevention of existing destruction through policies that support each other.
- Setting up monitoring and monitoring systems: the economic, social and environmental impacts of the green budget instruments should be assessed before and after the implementation.

4. Conclusion

The existence of an environmentalist approach on the basis of public budgets is called green budgeting or ecological budgeting. The tools to be applied within the framework of green budgeting are the fees, dues, fees, charges and fines levied on the use of natural resources or pollution causing activities. Within the scope of green budgeting, expenditures on environmental protection, subsidies, incentives, as well as environmental imrovement, are designed to improve environmentally sensitive behavior. However, in line with the environmental approach adopted in budgeting, it is aimed to determine and introduce short, medium and long-term targets firstly. The success of selected policy instruments in achieving environmental goals should be assessed after implementation. At the same time, it should be subject to comprehensive assessments whether policy instruments that play a role in achieving environmental goals have a detrimental effect on other areas (fair income distribution, economic growth, global competitiveness of sectors, price stability). In addition, the addition of an environmental performance assessment report as an additional document to the state budget enacted every year will be a valuable resource for the legislators. We believe that the green budgeting itself is expected to be environmentally sustainable, and it is strongly dependent on a strong political willingness, the availability of legal infrastructure, compliance with other policies and the monitoring and follow-up of the implemented environmental financial instruments.

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PSYCHOLOGICAL AND SOCIOLOGICAL ASPECTS PREVENTING "COMMON WALLET" PERCEPTION IN THE PUBLIC BUDGET

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Abstract

This study mentions the perception of "common wallet" and the determining phases of shaping process, in order to scrutinize the way Society's perception has got its background using sociological and psychological parameters. What "common wallet" means is the public budget which is the legitimate source that enables the government to spend and gather resources. Understanding of public budget is closely related to social interactions between citizens, their behaviours and acts since it is a product of labour productivity. Thus, since the budget rights starting point is the citizen's common money; it is based on the need to identifying common (social) need from this budget.
On the other hand humans are described as social entities firstly. Humans effect the society they live in and they get effected by the society as a reason for that. Because of these, social interaction as an individual and as a group effects what we can identify as a social common value "common wallet" perception and the shaping process. Based on this perspective "common wallet" perception and determinants of the shaping process are examined via social psychology perspective; while the concepts of altruism, altruistic punishment, lack of social belonging, bystander effect, social loafing, cognitive contradiction theory and ethical behaviors/cultural behaviors were utilized, the public budget consciousness shaped within this social relations was tried put forwards.
From this point of view it is aimed to contribute to the problem from a wider perspective and to provide constructive solutions.

Keywords: Public Budget, Common Wallet, Fiscal Sociology.

JEL Code: H31, H61.

1. Introduction

Public expenditures made by the state express the common expenditures of the society. Financing of these services that the state provides is realized by collecting some income from the society, taxes coming in first. Thus, the public budget which is the legitimate instrument for the government to make common expenditures and gather common incomes is actually the common wallet for all the citizens living in that country. The biggest support for this is that the expenses made in order to meet the expenses of the citizens living in that country are being made from this wallet (public budget). Therefore, as well as there is individual budgets (wallets) exists public budget is actually means the common budget (wallet) of the community. In this study what we mean by "common wallet" is actually the public budget itself with this perspective. What we want

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to tell with the "common wallet" perception which is the main focus of this study is the insensitivity of the people to extravagant use of budget resources which is produced by with their own labor productivity. In the first chapter of this study with the perspective aforementioned, we discussed the "common wallet" perception in the public budget.

2. "Common wallet" perception in the public budget

Public budget is a concept which needs to be discussed and is worth-stressing about because with the effects of structural differences in the social layers of society, public budget is being perceived differently.

2.1. Concept of "Common Wallet"

State takes care of common needs while making public expenditures and obtains the public revenues in order to be able make these expenditures. Goods and services required for the presentation of public services are purchased and expenses are converted into public service by means of the revenues gathered. Therefore, we can state the public budget which is the sum of the expenditures made to meet the common needs of society and the revenues obtained to provide the financing of these expenditures, we can refer to a common wallet used for the common needs of society. An important aspect in this point is that this wallet is financed by the citizens and is also spent on providing services to the citizens. This situation points to one of the important points where the common wallet (public budget) differs from the personal wallets (budgets) of micro economic actors. In our study we preferred to express the public budget as "common wallet", as a metaphor tool based on these differences. At this point we can define the concept of common wallet as:" Public source that shows citizens' common incomes and common expenses in detail and collects incomes for the common interests of the society and authorizes the realization of expenses".

On the other hand it is very important to evaluate the concept of common wallet on all dimensions which undergoes development and change in strict adherence to social dynamics. At this point the perception of the common wallet by the citizens appears as an element to be emphasized. In the next section "Common Wallet" will be discussed as the weakening of "common wallet" perception which we have explained in the subheading.

2.2. The Weakening of "Common Wallet" Perception

The concept of "common wallet" which we have used through metaphor cannot be clearly understood due to some problems even though it exists in practice. At the beginning of these problems the real owners of the resources that make up this wallet are not aware of the fact that they are the owners of this wallet or that this consciousness is weak. At this point weakness or the weakening of the perception will cause problems such as lack of correct use of resources, loss of social awareness and consciousness and disruption of audit process.

The fact that citizens do not show their interest in their personal wallets against the public budget, which is their common wallet, is an important factor in the development of this perception. Therefore, it is not possible to reflect the social demands in public decision-making mechanism under these circumstances.

Given the fact that budget has political, economic, financial and legal consequences it is clear how important it is accurate and effective usage. In this context it is required to search for an answer the question of "Why the sensitivity of the citizen to his personal wallet does not show if the public resources if the public resources are not used correctly and effectively". At this point there are many elements that causes the weakening of the common wallet perception. We can list these elements as law insecurity, corruption, media-commerce-state relationship, the effect of liberal thought, the structure of nongovernmental organizations, lack of public consciousness, weakness of citizenship consciousness, role of education, psychological and sociological elements. But we have evaluated the psychological and sociological aspects on this study of ours.

3. Psychological and Sociological Aspects Preventing "Common Wallet" Perception

The system of mainstream thinking defines individuals as homeconomicus. In other words, according to basic the basic assumption of classical and neo-classical economics individuals are rational and selfish. Therefore, individuals do not reflect their mood emotions and behaviours as they are rational in their decisions and preferences. But people are so versatile that they cannot fit into such narrow molds. As a matter of fact, humans are social creatures that affect the society and get affected by society. Thus, humans are open to social interaction. This social interaction affects humans' acts and behaviours. This is the reason why people act similarly, influenced by each other despite their personal differences. This situation affects the political, social and economic motives. Therefore, it would be appropriate to take advantage of some sociological and psychological concepts in explaining the formation and development process of public wallet perception that is intertwined with the society.

Actually this part of our study is in the scope of behavioural economics which is a separate field of study. Thus, behavioural economics is an area that observes the effects of the attitudes, behaviours and thoughts of people forming the common point of action of psychology and economics on economics-based choices and decisions and examines these observations based on experiments (Toigonbaeva & Eser, 2011:288). Thereby when we study the weakening of individuals perspective on common wallet perception within the framework of behavioural economics the following concepts emerge.

3.1. Lack of Social Belonging

People have moved away from social integration with the strengthening of the institutional structures shaped within the framework of metamorphisms and transformations in today's conditions. Especially with the emergence of individualization after the 1980s accelerated this process.

On the other hand, with the discourse of "modern people" social structures have lost their meaning and reality and under these conditions people have been under the influence of sudden and transient popular culture. Man, has become an expert in the means of consumption patterns determined under these conditions. It is the reason why men are alienated from themselves and the society (Zijderveld, 1985: 137). Alienation leads to the weakening of the social ties of people with "weakness" and "nonsense" dimensions.

It is a unchangeable reality that the mechanism of public administration cannot be considered separately from social processes and formations. In this context, it is very difficult to create or perceive common values in social structures where social perceptions cannot be fed. These forms of formation lead to remaining weak or weakening of the common wallet perception created by the common contributions of the society. Because this situation will also give rise to a social weakness in which social empathy is weak in society, individualization is strengthened and alienation increasing.

3.2. Altruistic Punishment

Altruistic punishment means that individuals will punish other individuals even if they know that the results might lead to any negativity for the group they are in or for themselves and they know that this will not give them any material interest. (Fehr & Gächter, 2002: 137).

In addition, altruistic punishment is one of the indicators of the importance of protecting the behavioural forms of justice in social groups. In this context we can say that social preferences too are important for people besides economic preferences (Barclay, 2006: 342). Therefore, it will not be wrong to say that collective actions can be kept under control by altruistic forms of action.

Reaction or punishment by the members of the same group to the part of the group that causes damage to the social group will create an internal control mechanism. However, the person who reacts against to the damage that has occurred must also take the risk to face a reaction or exclusion. The large scale of reaction and probable exclusion of these people often condemns the society to be unresponsive. In this context the society will be unresponsive to the unlawfulness, corruption and injustice that will be experienced in the political, social and economic areas of social structures where altruistic punishment is weak. On the other hand, in social structures where social responsibility and integration are not developed individuals can act so that they do not contradict group norms. In other words, people do now exhibit behavior contrary to the group without adopting social common values. In this case, people will continue to exhibit the same behavior in areas where they will not be subjected to reaction or punishment. It is the reason it is important that people adopt social common values. In this context, it is important to adopt the common wallet which we can characterize as one of the common values of the society as a common value. Hence, these factors play a decisive role in the development or the weakness of common wallet perception.

3.3. Bystander Effect

Bystander effect is a concept that states that people feel less responsible as the number of people who notice the event increases and therefore they expect others to intervene (Hudson & Bruckman, 2004: 169). In other words, the response of the people to the events that occur is inversely proportional to the number of group members (Fredricks, Ramsey & Hornett, 2011: 4). Bystander effect is also called the spectator effect or the disinterest in the audience.

Social pressures, pluralistic ignorance, responsibility dissemination or sharing, the desire to protect himself by thinking that his security will be endangered, to think that the person does not have enough skills, the complexity of the situation is considered to be among the reasons for the disinterest in the audience (Özdevecioğlu, Kaya & Dedeoğlu, 2014: 28; Grantham, 2011: 264).

We can say that psychologically-based spectator disinterest affects people's perception of common wallets in the context of public budget.As a matter of fact, citizens may think that the decisions taken or the expenditures made on public budget are already followed by another person or that they will react to any negativity.In other words, citizens will move away from the perception of common wallets with the idea that the responsibility is shared within the community.

3.4. Social Loafing

Social loafing is a tendency for individuals to be less productive or less likely to struggle in comparison to others who perform the same task within the group (Harcum ve Badura, 1990: 629). Social loafing occurs consciously or unconsciously, due to a decrease in social awareness individual shows less effort in the group than if they were to be alone. (Liden, Wayne, Jaworski & Bennett, 2004: 286).

We can say that some citizens exhibit social loafing behavior in the pursuit of the common wallet created with common contributions. Although individuals contribute to the formation process of the common wallet they may choose to spend less effort for the reasons underlying social loafing behavior in order to act in line with social goals. This situation is observed more frequently in social structures where social integration and common values do not occur.

3.5. Cognitive Contradiction Theory

The theory of cognitive contradiction presented by Leon Festinger in 1957 refers to the situation in which one's knowledge, belief or attitude contradicts another knowledge, belief or attitude of the same person (Festinger, 1957: 177-179). This is in fact an individual developing a psychological defence mechanism.

On the other hand, cognitive contradiction is also discussed within the framework of obedience and acceptance mechanisms.As a matter of fact, people exhibit compliance behaviour when faced with external pressure, punishment or coercion.But these behaviours do not reflect their true attitude. But if a person really does something right within himself or because he has found the behaviour of a group to be correct,then as in the case in adoption, person's own behaviour

will also reflect the attitude (Kağıtçıbaşı & Cemalcılar, 2014: 172-173). The cognitive contradiction theory is being used in many different disciplines is a theory we can also use in finance to explain why the citizens are unresponsive or insensitive to corruption and against the effective use of the common wallet.

3.6. The Underdevelopment of Ethical Behavior/Culture

Issues related to what is good or true for people and social structures fall within the scope of their ethical behavior/culture. Public administration ethics is the shaping of behaviors of employees within a certain organizational structure within the framework of defined laws, ethical codes and various rules (Özdemir, 2008: 182).

While the lack of ethical consciousness and culture causes corruption and unethical behaviors in the society, these negativities are also reflected in the public administration process as they are reflected in other social fields. Especially, the fact that public officials are not only responsible for the organizational structure they work in and that they are responsible for the citizens also increases the importance of ethical behaviors that will be adopted in public spaces.

On the other hand, the differences in what is good or true are evaluated within the framework of ethical theories.Thus, it is important whether the ethical approach we adopted in the ethical context is a pragmatic understanding of ethics or a principled moral understanding (Haşlak, 2006: 186-187).

4. Conclusion

The public budget, which we call the common wallet, is simply the common money of the citizen.For this reason, public (common) needs are identified and met by this budget. One of the main reasons why state exists is that it fulfils these social needs in a way that increases the public benefit without profit.As a matter of fact, since public goods and services cannot be priced, this situation also contradicts with the fundamental mechanism of the private sector acting with profit motives.

The concept of public administration, the formation and development processes of public budget consciousness are closely related to the elements shaping the social structure.While the elements we considered in our study guided us to make sense of the individual - society dynamics, it made it easier for us to evaluate the factors affecting the common wallet and common wallet perception that we have defined as a common value.As a matter of fact, the individual shaped by these sociological and psychological factors that affects the social behaviours of people due to the social impact is a part of the social structure. Hence, the mechanisms that constitute the social behaviours play important roles in social structures. The psycho social factors that will enable citizens to have the budget right or to prevent them from seeking this right also form the framework of social structures.

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SOVEREIGN WEALTH FUNDS: THE CASE OF NORWAY

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Abstract

Sovereign Wealth Funds that emerged in the mid-twentieth century and whose numbers have largely grown since then, have become an important issue at the heart of discussions today. In this context, The Government Pension Fund-Global, established under the name of Government Petroleum Fund in 1990, attracts the attention as the largest sovereign wealth fund in the world today. Particularly good governance, transparency, importance of ethical values in investments, consistently dynamic structure are the main factors that feature in the development of the fund. Hence, in the study, The Government Pension Fund-Global has been examined in terms of guiding to Turkey Wealth Fund, established in 2016 and one of the world's newest fund.

Keywords: Sovereign Wealth Funds, The Government Pension Fund of Norway, The Government Pension Fund-Global, The Government Petroleum Fund of Norway

JEL Code: F30, G23, G38

1. Introduction

The term "Sovereign Wealth Fund" was first used in 2005 by Andrew Rozanov, one of the State Street Bank of America. Rozanov indicated that by betterment of macroeconomy, terms of trade and financial stability of a country and implementation of financial spending limitation policy, budget surplus and foreign trade surplus accumulate. He stated that therefore, to manage the surplus at issue, investment institutions were established, and they could be called Sovereign Wealth Funds (Ping & Chao, 2009: 2).

There are three key features of Wealth Funds. First of these features is that Wealth Funds are stated-controlled. Second, they mainly invest abroad. Third, they are established in accordance with long term objectives, by and large to implement macroeconomic objectives. Thus, assets of the Fund, is different from the Central Bank reserves, the purpose of which is only to equilibrate balance of payments and should not be confused with other institutions, and establishments, and funds (IWG, 2008: 27)[2].

Sovereign Wealth Funds, though it emerged as a financial issue in 21st century, they date back to a long time. In literature, it is stated that the first modern sovereign wealth fund in line with IMF

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[2] For further information on sovereign wealth funds. See: (Özgül, 2018).

definition is the one established in Kuwait in 1953 to manage surplus of income from oil (Alheshel, 2015: 2).

The Funds which were few in 1950s, from the end of 90s, increased enormously in number and the Funds at issue spread to the world. Today, there are 78 Sovereign Wealth Funds in 50 countries in total (SWFI Institute, 2019).

Among these funds, Government Pension Fund is the subject of this research, as it has the biggest asset value and it is shown as a model in terms of transparency.

2. Government Pension Fund Global (GPFG)

According to Sovereign Wealth Fund Institute data, by 2019, GPFG is the biggest fund in the world with an asset value higher than 1 trillion dollar[1]. Moreover, on LMT index, used by the institute as transparency index, it scored 10 over 10. The fund at issue is commonly described as a transparent and well-managed and it is praised by the media around the world for leading the responsible investment enterprises on ethical and social grounds (Clark &Monk, 2010: 14).

2.1. Historical Development

The Sovereign Wealth Fund of Norway is directly linked to the drilling of oil resources in the country. In Norway, oil was first discovered in the North Sea in 1969. Two years after its discovery, the oil production began. And in 1990s, a significant revenue from oil production accumulated. Norwegian Government launched Government Petroleum Fund as a means to support long-term management of ever-increasing oil revenue. The Fund at issue was founded by passing of Government Petroleum Fund Law by Norwegian Parliament in 1990 (Backer, 2009: 132)[2].

One of the most significant reasons to found the fund was to make clearer how the oil revenue was used. In this context, it was aimed to compile the mentioned revenue under a fund and use them to cope with difficulties that might occur in public finance in long term because of the fluctuations in the oil revenue (Norges Bank, 1998:4) By doing so, it is aimed to create a long-term prosperity source to finance the social security spendings that might occur as a result of the population growth in the future and to benefit future generations (Legislative Council Secretariat, 2014: 1).

Fund mechanism was designed in a way that transfer to Fund could be made only when there is budget surplus. For this reason, between 1990-1995, no transfer was done to the fund. Because, due to the recession in the country in the first half of 1990s, budget deficits occurred. After this

[1] The value at issue constitutes %13 of the total value (as of 2019 8,144 trillion dollars) of all the sovereign wealth funds.

[2] After oil was discovered in 1969, it was realised by the Norwegian Government that the oil revenue would be high. And also, it was weel-understood that the oil revenue is not a renewable income and it would be affected by economical fluctuations. For these reasons, managing the oil revenue and spending of the state became important and the idea to establish a sovereign wealth fund was first suggested by Tempo Commitee in 1983. And in the long term programme released in the spring of 1986, the Norwegian government supported the idea (Norwegian Ministary of Finance, 2013: 7).

period, first budget surplus occurred in 1995 and capital transfer to the fund from that year's budget surplus took place in 1996 (Skancke, 2003: 318). The fund which was renamed ''Government Pension Fund'' in 2006 (Clark &Monk, 2010: 14), from 1996 when it acquired the first capital transfer to today, it has been ever growing and in 2019, with its asset value of more than 1 trillion dollars, it has become the biggest sovereign wealth fund in the world. (SWFI Institute, 2019).

2.2. Governance Structure

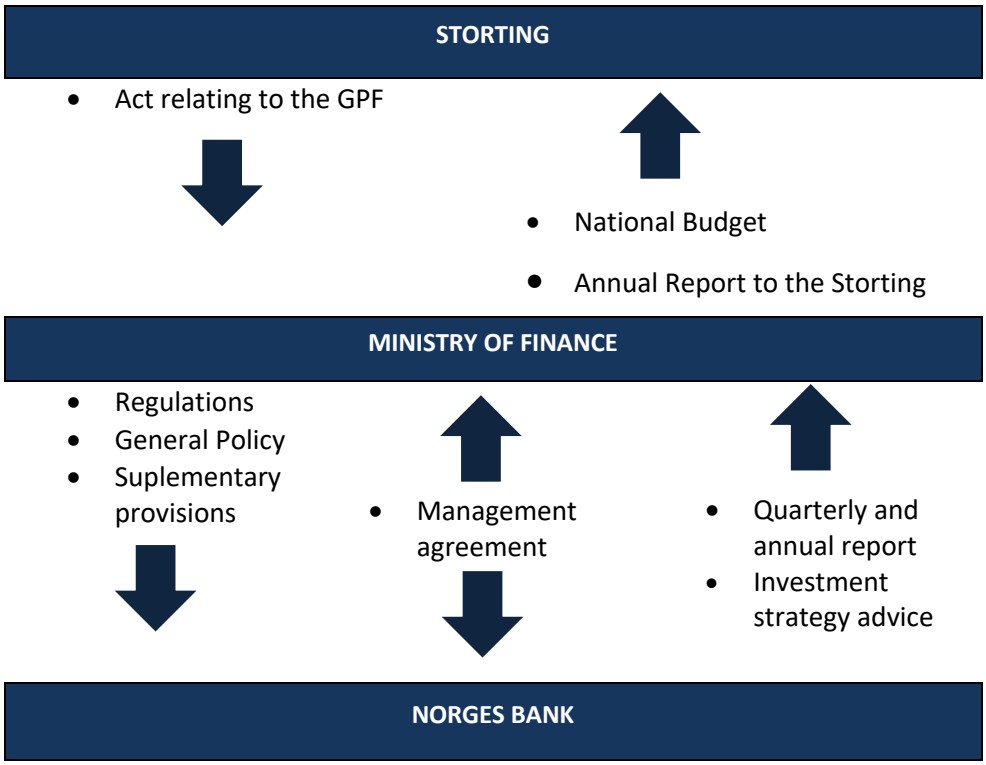
As is today, The Government Pension Fund consists of the Government Pension Fund Global and Government Pension Fund Norway (Government Petroleum Fund Act, 1990). The Government Pension Fund Norway involves (Folketrygdfondet) National Insurance Scheme Fund Norway (Norwegian Ministry of Finance, 2006: 5-6). Along with this, well-known in the world, displaying sovereign wealth fund features i.e. making investments abroad, The Government Pension Fund Global (GPFG) is the main subject of this study.[1]

GPFG has not got executive board or administrative personnel. According to law, GPFG is administrated by the Ministry of Finance. Administration of the fund is divided into three parts. The first part includes formation of general policy. This function belongs to the Ministry of Finance. Ministry of Finance sets out principles of ethical and institutional management principles along with fund's investment strategies (Norwegian Ministry of Finance, 2006: 6). The second part is the administration. The operational administration of the fund is transferred to Norway Central Bank (Norges Bank). Within this scope, a management agreement was made between Ministry of Finance and the Norway Central Bank to regulate the task sharing (Figure 1) (Norges Bank, 2008: 6).

It's not possible that the operational management of GPFG is regulated and administrated in a detailed manner by the Ministry of Finance. The authority of regulation only states the general investment strategy. Norges Bank is responsible with making investment decisions independently of The Ministry. The responsibility to accept investment strategies and other high affairs belongs to Executive Board in Norges Bank. Daily operations are given to the chair of the Norges Bank Investment Management (Norwegian Ministry of Finance, 2018: 58). In this context, the chair of the Norges Bank Investment Administration reports to the Norges Bank manager monthly; however, does not participate in the internal discussions on Central Bank's general monetary policy (Skancke, 2003: 330).

[1] Norwegian Wealth Fund carried on its activies as State Oil Fund from 1990 to 2006 and in 2006, it was renamed Government Pension Fund, with the merging of Goverment Pension Fund-Norway which involved National Insurance Fund and Government Pension Fund-Global which was continituation of Government Petroleum Fund.

Figure 1. Governance Structure of GPFG



Source: Norges Bank, 2008: 7.

Third part is the supervision (Figure 2). Norges Bank files a detailed annual report about the management of the sovereign wealth fund. These public reports, explains how the fund is managed and includes a list of the companies the fund invests in. These reports also include information such as the investment view and the election process of the exterior managers. In addition, Norges Bank files quarterly reports including main revenue and cost data. Apart from all these, Norges Bank reports to an independent company too. The reports of this company are public and published online as the Norges Bank's reports (Skancke, 2003: 328-329).

The Ministry of Finance, to which the Fund is affiliated, every year at the spring session, presents a report (White paper) about the management of the fund to the parliament. These reports are public. In the attachment of the report, the annual report presented by Norges Bank is also available. In the reports presented by the Ministry of Finance, the general issues about the management of fund capital are presented. More general topics, such as; the management of the oil revenue, the role of the fund in the economy and how much of the oil revenue is to be spent are discussed in the autumn session along with the financial year budget (Norwegian Ministry of Finance, 2006: 7).

Figure 2. Audit of GPFG

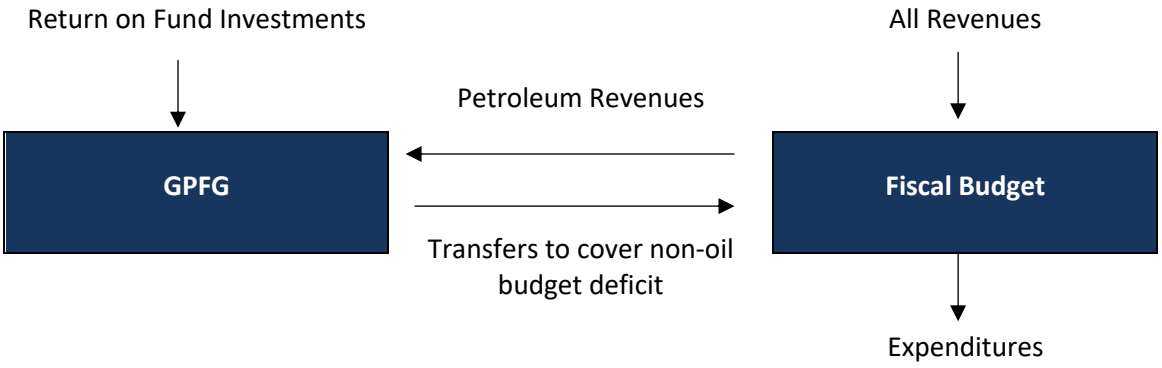


The fund is also audited by the Office of the Auditor General of Norway. The office is responsible with the ultimate audit of the fund and reports directly to the parliament (Backer, 2009: 139).

2.3. Operational Mechanism

The revenues of GPFG are provided from the cash flow coming from the oil-related activities which is transferred from the fiscal budget, from the results of financial transactions -related to oil-related activities, and returns of the fund capital. In compliance with the decision made by the Norwegian Parliament, the capital of the GPFG can be only used in the transfers to the fiscal budget (Government Petroleum Fund Act, 1990).

Figure 3. Fund Structure



Source: Skancke, 2003: 321.

As shown in figure 3, in this context, the spending of the fund consists of the annual transfers to the Treasury to close the budget deficit which occurs apart from the oil revenue in the fiscal budget (Skancke, 2003: 322).

However, the transfer is limited. Authorities made a regulation in 2001 to allow only %4 of the fund-asset of that year to be transferred to close this deficit. In determining %4 ratio which is also called the fiscal rule, fund's expected rate of return from its investments was considered (Wirth, 2018: 184) and this ratio was reorganized as %3 in 2017. It is expressed that, by this means, the transfers which are to be made to the fiscal budget from the fund would be levelled in time to the fund's expected actual rate of return (Norwegian Ministry of Finance, 2019).

While on one hand, the Norwegian Ministry of Finance asserted that the oil income was not permanent and could be affected by the financial fluctuations easily, on the other hand it emphasized that fund's expected net return could finance the budget deficits in time as a permanent income. It is assumed that thereby the effect of the financial fluctuations on the budget could be prevented (Norwegian Ministry of Finance, 2006: 8).

2.4. Investment Strategy

As mentioned earlier, Norway Wealth Fund got the first capital in 1996, after its formation in 1990. Until 1998, the fund capital was managed in the same manner as Norway Central Bank foreign exchange reserve. In the beginning, GPFG only made investments in fixed-income security including government bonds and government-guaranteed investment grade securities in only 8 countries (Norwegian Ministry of Finance, 2014: 15).

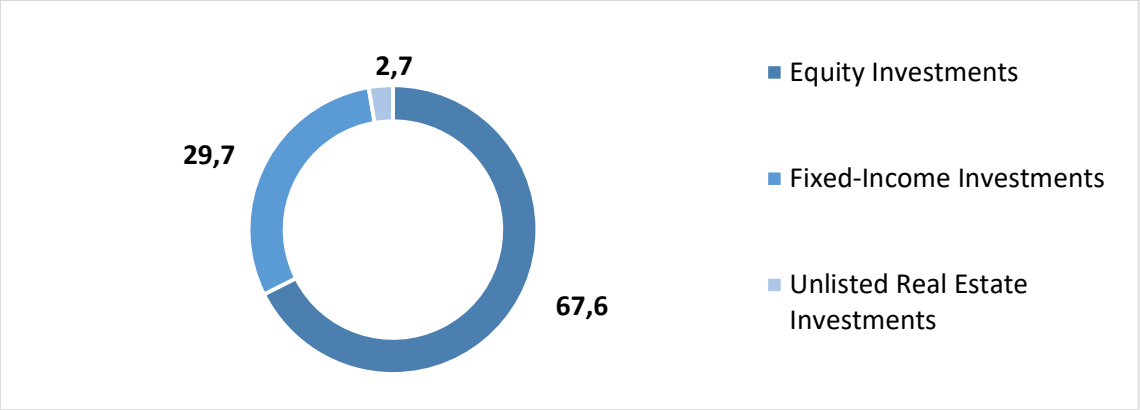
The Fund started preparations to invest in equities in 1997 and established a new department called Norges Bank Investment Management in the first quarter of 1998 to manage these investments and transferred the assets which was 14 billion euro at that time to this department (Skancke, 2003: 330). The fund started to invest equity investments with %40 initial share after this. The idea behind this spurt was that equities would bring more profit than government bonds in the long term. By this means, it was predicted that investing in multiple asset classes would help spreading the risk (Norwegian Ministry of Finance, 2014: 15).

In 2000, some developing markets were included in the equities and fund investments was expanded to include 21 countries. In 2002, non-government guaranteed bonds were included in the fixed-income benchmark. In 2007, the share of equity investments was raised from %40 to %60 (%70 today). In 2008, the scope of equity investments was expanded even further including all the developing markets[1] (Norwegian Ministry of Finance, 2014: 17).

Again, the fund was allowed to make real estate investment up to %5 (%7 today) in 2008. First real estate investments were made in big European cities. After 2013, investment strategy of GPFG was changed so that real estate investments could be done in global scale (Norwegian Ministry of Finance, 2014: 18).

[1] These markets are all markets defined by FTSE Group as *Advanced Emerging* and *Secondary Emerging*. For more information see https://www.ftse.com/products/indices/country-classification (26.02.2019).

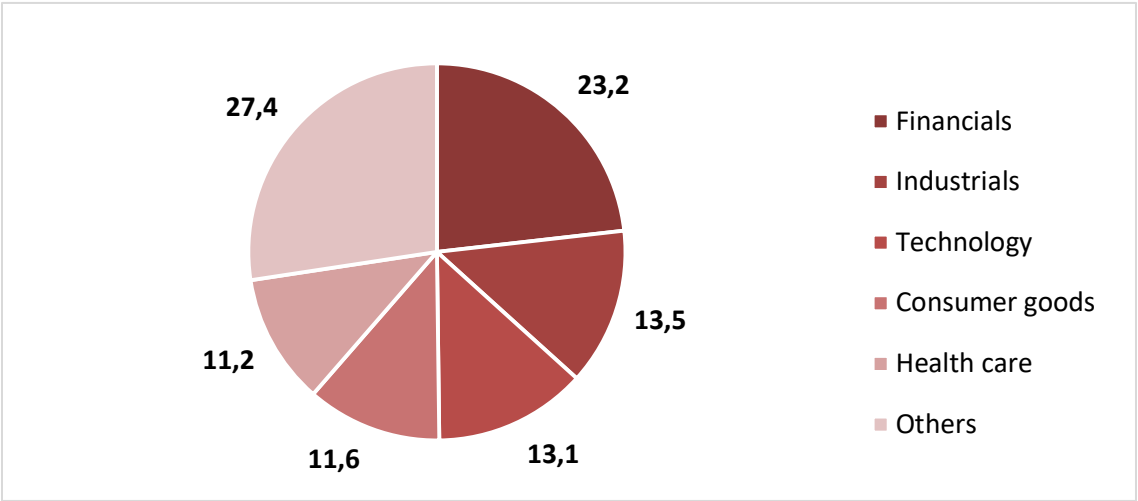
Chart 1. Investment Distribution of GPFG (Third Quarter of 2018) (%)



Source: Norges Bank, 2018: 4.

Today, the funds make investments in more than 9000 companies in 72 countries (Norges Bank, 2017: 26). As shown in Chart 1, the biggest percentage of GPFG's investments is consists of equity investments with %67,6. It is seen that most investments are made in finance, industry, and technology sectors (Chart 2).

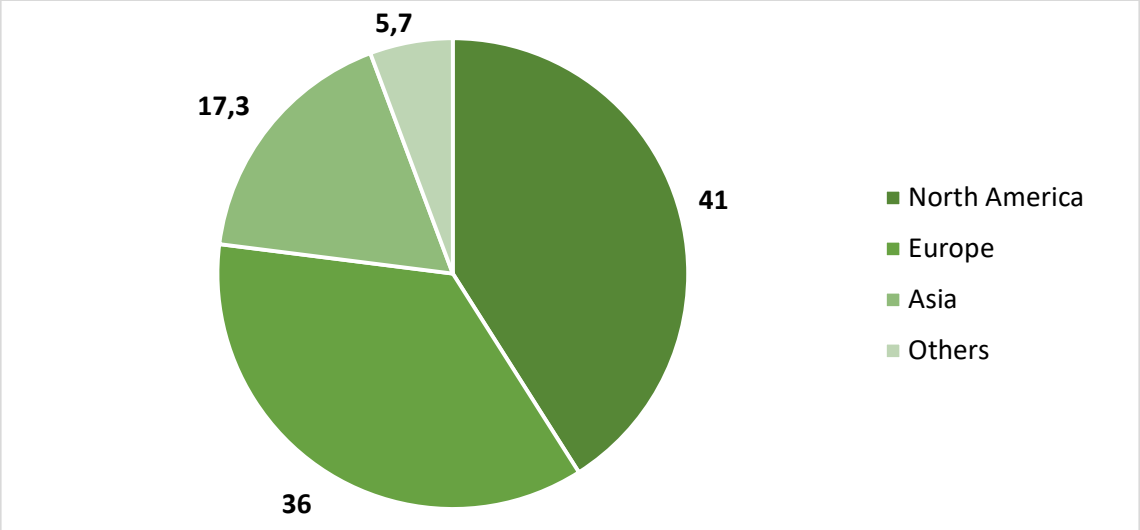
Chart 2. Sectoral Distribution of Equity Investments (Third Quarter of 2018) (%)



Source: Norges Bank, 2018: 7.

As shown in chart 3, the biggest percentage in regional distribution of GPFG's investments is in North America region. That is followed by Europe with %36. Country based, %36 of the distribution is in the U.S., %8,8 in the U.K, and %8,7 is in Japan (Norges Bank, 2017: 27).

Chart 3. The Regional Distribution of The Fund's Investments (End of 2017) (%)



Source: Norges Bank, 2017: 27.

The biggest reasons why GPFG became the biggest wealth fund and the investments developed this much are good management and transparency. In many reports reviewed and articles written, it is seen that attention is drawn to the understanding of transparent management since its formation. The important part of this is The Council on Ethics.

2.4.1. The Council on Ethics

Besides being officially affiliated to the Ministry of Finance, at the same time, GPFG is the property of Norwegian citizens. Thus, it can be affected by the public. In 1998 when the fund started making equity investments, it was opined by the citizens that the fund should not only be used for intergenerational justice, but also it should contribute to the universally accepted values and norms. Because, in those years, it was revealed in report that the fund was investing in many companies which took part in unethical activities (Wirth, 2018: 186).

Upon this, in 2002 The Ministry of Finance formed a commission. In the report released by the commission in 2003; internationally accepted ethical values regarding human rights, governance, and protection of environment depending on UN and OECD principals were defined. In the report, in particular the necessity of two main values was underlined. The first of the mentioned values was the compulsion to intergenerational distribution of the oil revenue even if petroleum revenue was low. The second was company that are to be invested in have to be respectful to the basic rights and liberties. At the end of 2004, the parliament passed the Ethical Guidelines for the GPFG (Wirth, 2018: 186-187).

Also, in this session The Council on Ethics was established. The council is an independent one responsible for counselling the Ministry of Finance and Norges Bank[1]. The council's responsibility

[1] The investment advice was passed to the Ministry of Finance until 2015, then directly to Norges Bank.

is to check whether the companies that are to be invested in comply with accepted ethical criteria. Until today, the council has given advice to Norges Bank on many companies that violate the ethical rules. And most of the time, Norges Bank followed their advice, though it is not compulsory for the bank to follow the given advice (Council on Ethics Government Pension Fund-Global, 2005: 5, 2017: 7)[1].

3. General Evaluation

For the financial authorities in a country, the priority should be the development of cautios and long term strategy for finance policy. However, if this strategy requires the state to accumulate its resources and form a sovereign wealth fund, then there is the necessity to make the detailed regulations for the mentioned fund. The success of the fund requires high consensus, transparency, and accountability. As in the example of Norway, it was possible that an institutional frame could be formed in 1990 when the fund was established. Because, at that time, the Central Bank had vast experience on how to manage the foreign exchange reserves and a well-functioning reporting and control systems. Additionally, for financial policy strategy and the operations of the central bank, there is the long tradition of transparency in the country. Moreover, the contract between the Ministry of Finance to which the fund is affiliated and the Central Bank that runs the operational management of the fund helped the good management of the fund by stating the duties and responsibilities of the parties clearly. Correspondingly, it is required for the countries that take GPFG as an example, they should develop the institutions to regulate transparency, accountability and budget operations, and establish a tradition of transparency (Scancke, 2003: 333).

4. Conclusion

The total value of sovereign wealth funds whose numbers are 78 today, has risen to 8.144 trillion dollars today. %13 of the total value belongs to the GPFG alone. The fund having got the allocation of capital for the first time in 1996, firstly made investments in fixed income securities and then started making equity investments. Today, it is the biggest wealth fund in the world investing in more than 2000 companies in 72 countries.

It is the subject of another research whether the wealth in the countries of the sovereign wealth funds establish before and after the fund at issue is more than Norway. However, as from 1990 when Norway Wealth Fund was established, it is a significant fact that it was realized that the oil source of the fund would not be a permanent income and to finance the ever since growing elderly population's expenses in the future, by managing the mentioned oil resources well it reached it's success today. The most important reasons behind this success are that the first day

[1] Council in the companies to be invested; It pays attention to the existence of many situations such as human rights violations such as murder, torture, child labor and all forms of child exploitation, severe environmental damages, arms production, greenhouse emissions, corruption and serious violations of basic ethical norms (Council on Ethics Government Pension Fund-Global, 2005: 6).

the fund was established on, transparency and accountability were prioritized and well-planned management of the oil revenue.

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REPAYMENT AND REMISSION OF DUTY - AS AN ADMINISTRATIVE REMEDY- IN CUSTOMS TAX LAW: ISSUES ENCOUNTERED IN PRAXIS

Özgecan GÖK[1]

Abstract

It is possible to accept return or removal over calculated or collected customs duties through repayment and remission in accordance with the articles 211 and the rest article of the Customs Code. In this respect, repayment and remissionare both an administrative remedy and a key that ends disputes. Import-turn over Tax, Stamp Duty and TRT Banderol fees are taken into consideration, in terms of the scope of repayment and remission.

Repayment and remission remedies are problematic in practice due to the surveillance practice in imports. Declarations on surveillance reference price based upon unacceptable surveillance certificate and then apply the return and remedies on the basis of the calculation of the tax on the lower sales price cannot be considered as a remedy reason in view of European Union Law.

Remedies of repayment and remission may be made within three years from the date of the notification of the tax that has been accrued or paid. There are hesitations about how to calculate the three-year period for the compensatory customs duty under Article 194 of the Customs Code.

The decision given as a result of a remedy of repayment and remission is an administrative decision within the meaning of the Customs Code.

If the administration does not implement the decision to repayment within three months, it is required to pay the interest on tax refunds, which will be calculated on deferment interest from the expiry of this period. However, there is no need for a special arrangement for the interest payment of the administration; within the frame of the liability law, it is possible to eliminate to the taxpayers' loss arising from contra legem (unlawfully collected) taxes, by full remedy action.

Keywords: Repayment and Remission, interest on tax refunds, import turnover tax, banderol fee, stamp duty, surveillance measure on imports

JEL Code: K34, H20, B17

1. Introduction

It is possible to have been notified and finally paid to anincomplete or over-calculated legal tax liability. In respect of customs duties, the recovery of this error enable within the framework of article 210-214 of the (Turkish) Customs Code.These regulations enable to correct the situations that are against the taxpayers. Import and rarely export taxes which should not be accrued or collected on the basis of the reasons regulatedin articles 211 to 214 of the Customs Code may be repaid or remit.

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Excessive calculation or collection of the tax may arise at the customs administration's or the taxpayer's hand. The Customs Code is largely in line with the Community Customs Code, which is currently not in force in the European Union. Existing recycling and lifting arrangements correspond to the regulations in Articles 235 to 242 of the Community Customs Code.The main reason of this regulation is the correction of improper taxation and ensuring an equal taxation and ensure this unity in the countries involved in the customs union.

The regulations related to repayment and removal in the fifth part of the ninth part of the customs duty of the Law are concretized by the regulations in articles 499 to 511 of the Customs Regulation.

The purpose of this Paper is to point out the repayment and remission as an administrative remedy and to indicate the problematic and controversial points. In this respect, issues such as scope, reasons of application, differences from other administrative remedies and results are examined.

2. The Concept Of Repayment And Remission

In the Article 210 of the Customs Code, the concepts of return and remission are defined as "the full or partical repayment of the paid customs duties and decided not to collect if it has not been paid yet paid." (Şenyüz vd., s. 348; Oktar, s. 275-277; R. Gültekin, s. 54 vd.; Nural, s. 617, 618).

The return as an administrative action corresponds to the concept of Restitution and remission corresponds to the concepts of deletion or remission of the tax duties in General Tax Law. (Saygılıoğlu & Gerçek, s. 204; S. Kaya, s. 122, 123).

However, the return and remissionas an administrative remedy corresponds to error correction that regulated in Turkish Tax Code. Despite these two concepts serve to the same purpose the arrangement of the relevant laws are different from each other.

3. Scope Of The Repayment And Remission

3.1. Overview

The scope of repayment and remission is determined as customs duties and fines. Inclusion of fines in the scope of the repayment and remissiondoes not mean that fines will be repaidwhen customs duties are repaid.

But, if the misdemeanors are based on a separate legal basis, they wil not be tax based repaid or remit.For example, in accordance with Article 64 of the Customs Code, the cancellation of the declaration may result to the repayment or remission of the taxes; however, it does not bear legal consequences about fines.

The amount of customs duties which will not be subject to repayment and remission is equalized to the amount to deletion based on collection impossibility.

Taxes on imports or exports are largely seen in the list of Annex-1 to the Customs Settlement Regulation. Some of the taxes in this list are noteworthy in terms of repayment and remission.

3.2. In Terms of Value Added Tax in Imports

According to the Article 48 of the Value Added Tax Code, the over Value Added Taxes which collected without considering tax exceptions should be repaid to the taxpayers who do not have the right to tax reduction. However, in customs administration applications, VAT on imports is considered as a customs duty.For this reason, the Customs Law should be applied in repayment and remission whether the taxpayer has the right of tax reduction or not (Yayla: 58-59).

Thus, the General Communiqué with the Serial No. 2 describes how VAT will be repay and remit to the taxpayers with or without the right of tax reduction.

3.3. In Terms of TRT Banderol Fee

According to TRT Income Code, TRT is also responsible for the remission of the Banderol fees that collected and transferred to TRT by Customs Authorities (Yayla: 59).

3.2. In Terms of Antidumping Duty

As an import duty, anti-dumping duty takes place in the scope of repayment and remission. The reference to the Customs Code in the Code of Prevention of Unfair Competition in Importation comes to the same conclusion.

Because of the necessity of enforce to the Agreement on the Implementation of Article VI of GATT 1994 in case of there is no provision in this Code, taxes that paid more than the dumping margin should also be repaid if they are requested with supporting evidence.

4. Repayment And Remission Reasons

4.1. Overview

Articles 211 to 214 of the Customs Code state the reasons for repayment and remissions as; non statutory tax collection and tax accrual, cancellation of the declaration, the case that the goods are contrary to the provisions of the contract or are faulty and the other reasons (Sarıaslan: 80-81; Nural: 618-623; Avcı: 17-21).

Among these reasons, the reason that regulated in article 211 is really contradictive and featured. Therefore, only this reason will be examined in the study.

4.2. Nonstatutory Tax Collection and Tax Accrual

4.2.1. Overview

Non statutory tax collection and tax accrual are the most basic repayment and remission reason.

There are two points that need to be clarified. First, what the notion of nonstatutory tax collection or tax accrualare; the second is what the notion of intentional alteration is.

In the decisions of the Council of State; it is seen that this notion is interpreted based on the decision of joint chambers in 1966. Accordingly, the customs duties that are requested repayment must be so clearly illegal that they do not need any examination, research and interpretation.

The decision of joint chambers in 1966 limits the reasons that regulated in Article 211 by introducing a clearly identifiable requirement. It is not possible to say that the decision of joint chambers is still has obligatory affect when we consider that it has been given when the Customs Code No. 1615 is in force.

The notion of nonstatutory tax collection or tax accrual should be thought, by taking into consideration to

* all the factors that give rise to the tax and the typicality in the daily life;

* and the special regulations at the level of the law for which the customs debt will be deemed unborn or taxes cannot be demanded.

Thus, in European Union Law it should be based on such a reason as;

- error in the discretion of the customs value; deducting the sale price which will be the basis of customs value by the parties,

- writing error or calculation error of the customspayer and as a result of it, use of the customs administration other methods of appreciation,

- not considered to tax benefits as preferential tariffs, exceptions and exemptions.

According to the Article 211, the application must not be based on an intentional alteration. This rule is expressed in different languages of the Community Customs Code by using different notions such as “deliberate action”, “deceptive action”. However, at the scope of the European Union practices, it is necessary to understand this notion as “the case that the intentional change of the data that plays a role in the emergence of the customs duties by related persons”.

4.2.2. Evaluation of Repayment and Remission in Customs Surveillance

At this point, it is necessary to evaluate import surveillance, which is a trade policy measure. In practice, when importers can not able to get their surveillance document, they show the cost of the goods than the actual value by showing abroad expenses and increase the value of customs to the margin of audit. Thus, the goods release into free circulation.

However, after the persons have released the goods into free circulation, they demand partial

repayment on the grounds that the value of the goods is lower. And also Council of State gives affirmative decisions about this topic. On the other hand, the customs administration evaluates this situation within the scope of the offense written in the sub-clause of Article 235, paragraph 1 of the Customs Code (Demir: 22).

When the misdemeanor is examined, it is thought that the situation this situation does not correspond to this definition of misdemeanor. Because with this regulation, the sanction of declaration of the unreal conditions is arranged. Moreover, two fold pecuniary punishment, loss of ownership and transferring property to the public would be unproportional sanction.

In this case, the European Union practices should be taken as a basis; and when it comes to intentional declaration of the value of customs equal to the margin of audit, repayment requests must be rejected.

5. Repayment And Remission Procedure

5.1. The Difference from the Other Administrative Remedies in the Customs Law

The Customs Code is also an administrative procedure law. In addition to the application for repayment and remission, there are also other applications such request for a decision according to Article 6, appeal (objection) application according to Article 242 and the compromise application.

When a remedy for repayment and remission bases on an accrual decision, it would not easy to ascertain whether it is an objection application or a repayment and remission application. In this situation, a review should be made in order to provide legal protection and serve to resolve possible disputes quickly. For example, if there are arguments about the lawfulness of the decision to accrue in a repayment and remission application within the objection application period; this repayment and remission application should be considered as an appeal application.

Also, the reason given in article 211 is also a reason that can be considered within the scope of objection rewiev. And practice of the article 211 is more pratic and protective for taxpayer’s rights. In this way, it is also easier to reach the judicial remedy.

5.2. Application Form and Appeals Procedure

In general, the repayment and remission procedure are regulated in Articles 502 and in the following articles of the Customs Code Implementing Regulation.

In terms of the procedure, the application deadlines are noteworthy. The Code clearly specifies the application deadlines for each reason except the cancellation of the declaration. It is possible to extend the application periods due to force majeure or unexpected circumstances.

It is considered that the application deadlines in article 211 can be taken into consideration in terms of cancellation of the declaration (Dş. 7. D. 4.5.2016 tarih ve E. 2013/4415; K. 2016/4282).

It is also unclear that when will be application period begin about compensatory tax under the Article 194 of the Customs Code. There is a need for a definite rule about the notification date. (Keleş: 55- 56).

5.3. Results of the Application and the Problem about Interest to be paid to the Taxpayer

The result of the removal and remission application is "a decision" in the meaning of the Customs Law for this reason it is necessary to exhaust this remedy before resort to jurisdiction. According to article 216 of the Customs Code, the decision must be enforced in three months after the decision of administration, otherwise the administration will have to pay deferment interest. Despite the decision of the Constitutional Court about article 216 that is about non-payment of the interest by administration, this regulation still means "the administration will not pay a deferment interest if the decision is enforced in three months". But according to our opinion, despite absence of a positive legal regulation, it is possible to compensate taxpayer's loss through full remedy action (Karakoç, Faiz-I: 34; Candan: 164).

According to article 192 of Customs Code, there is a joint liability between the persons who have liability to the pay same customs duty. Despite absence of a positive legal regulation, even if only one taxpayer applies remedy and remission, the decision about the apply will be affect all consecutive taxpayers. But if the reason of the removal and remission related to the applicant's personality, the decision will be effective for only applicant own (Witte/Alexander: 1760).

6. Conclusions

Repayment and remission are administrative remedy that serves to remedy disputes at the administrative degree.

The customs duties and penalties are evaluated independently according to their legal basis.

Value Added Taxes received from the import, the TRT Banderol fee and the anti-dumping duty should be evaluated by taking into consideration to their characteristic speciality regarding each remedy.

In the surveillance practice implemented as a trade policy measure in imports, when it comes to intentional declaration of the value of customs equal to the margin of audit, repaymentand remission requests must be rejected.

There is a need for a definite and comprehensible regulation about the notification date of cancellation of the declaration and compensatory tax that regulated in Article 194 of the Customs Code.

The application for repayment and remission is an decision request within the meaning of Article 6 of the Customs Law. Therefore, the decision given as a result of the application subjects to the objection procedure that regulated in Article 242 of the Customs Code.

Against to notification of the accrual decision, applying for objection (appeal) instead of applying for the repayment and remissionis in favor of the taxpayer.

Despite absence of a positive legal regulation and the result of the article 216 of the Customs Code that means "the administration will not pay a deferment interest if the decision is enforced in three months", it is possible to compensate taxpayer's loss arising from unlawfull taxation through full remedy action.

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LEGAL NATURE OF THE SHARE OF PARTICIPATION TO RECYCLING AND COMPARISON THEREOF WITH THE FOREIGN COUNTRY PRACTICES

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Abstract

One of the tools used to fight against the environmental pollution is the taxes. The taxes regarding the use of plastic bags, which is one of the causes of environmental pollution, is included in this scope, too. The share of participation to recycling, which is studied here and recently began to be implemented in Turkey, is discussed as plastic bag tax within the scope of this study. This study points out the nature of the share of participation to recycling in terms of tax and related financial obligation and scrutinizes it by way of comparison with the practices of foreign countries. It is concluded that the share of participation to recycling is a related financial obligation and thus some suggestions are put forward.

Keywords: Environmentallevies, Environmental taxes, Environmentally related taxes, Pollution taxes, Pigouvian taxes, The Share of Recovery.

JEL Code: F64, H23, K32, Q53.

1. Introduction

One of the instruments used to eliminate the adverse effects of the environmental pollution on human health is the taxes. Some efforts are made through the implementation of tax or related financial obligations, in an attempt to internalise the negative externalities generated by some products causing environmental pollution both during the production and consumption stage. The producers or consumers who cause any environmental pollution are liable to bear such financial obligations, based on the principle “Those who pollute shall pay”.

Yet another tax applied on the shopping bags, packaging, plastic waste, etc. in use for a long time in the countries worldwide is the plastic bag taxes. Eventually, owing to the regulations made in 2019, Turkey began to implement financial obligations on plastic bags. The liability called “Share of Participation to Recycling” entered into force to be imposed not only on plastic bags, but also

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on mineral and vegetable oils, batteries, some electrical and electronic devices, drug packages and bottles as well as a variety of packaging materials.

The practice that began under the responsibility of the Ministry of Environment and Urbanization is implemented with the involvement of the Ministry of Treasury and Finance in the collection. Although the results of the practice, which was initiated with a view to maintain efficiency and contributing to recycling in the fight against environmental pollution, will be achieved over time, it is also noted that it has some hesitations about its legality and quality. In particular, we are faced with the fact that the legal nature of the payment received as "contribution" is to be analysed along with the fact that whether it is based upon a principle of legality due its content as a financial obligation.

Our study sets out the findings on the position of the mentioned share of participation to recycling, within the classification of other taxes and related financial obligations and suggests recommendations for potential issues, by way of comparison with that used in foreign countries, also considering the regulations of international organizations.

2. The Role And Significance Of Taxational Tools In The Fight Against Environmental Pollution

Taxational tools as financial instruments have long been used in the fight against environmental problems. However, the uncertainty about the property rights during the use of these tools as well as the failure in pricing the environmental goods and services and how these costs are to be imposed on the society, is one of the major considerations. In general, a significant consensus was reached on the fact that the individuals or organizations that damage the environment and cause negative externalities have to bear the costs. Thus, it is aimed to internalise the externalities caused (Toprak, 2006: 154).

British Economist A. C. Pigou (1877-1959) was the first person to use the term "pollution tax" in relation to the taxation of environmental pollution. In his work entitled "The Economics of Welfare", Pigou proposed externality tax against the air pollution caused by the well-known fog in London at the time. So, upon this proposal, the environmental taxes entered the literature as Pigou tax or Pigouvian taxes (Özdemir, 2009: 19). As Pigou thinks, a certain amount of subsidy should be granted to the industries where the marginal net social product is greater than the private product; where as a certain amount of taxational liability is to be imposed in the industries where the marginal net social product is greater than the private product, in order to maintain an optimal outcome level in the industries operating in imperfect competitive conditions. In this way, the government will be able to change the outcome in a way to equalise both marginal value and enhance the economic welfare at an optimal output level. Here, Pigou advocates the idea that some sort of tax be imposed to suit the consumption or use of the unit or goods leading to a negative externality, in an effort to maintain an optimal output level, in the presence of the costs caused by negative externalities (Kargı and Yüksel, 2010: 185,194).

In addition to the positive aspects of Pigouvian taxes as mentioned above, it also involves some difficulties in practice. In the event that no tax can be levied directly on pollution due to such difficulties, the second best taxes are the indirect environmental taxes. While these taxes are similar to the Pigouvian taxes, they are levied on the production inputs and consumer goods that cause environmental pollution. We cannot talk about a direct relationship between tax paid and the negative externalities. Therefore, the effect of these taxes on the behaviors hazardous to the environmental cannot be fully predicted (Gündüz and Agun, 2013: 60).

It is seen that there is not a complete consensus in the literature, on the application of non-taxational financial obligations or charges/fees, which one of them is effective and the definitions thereof, in addition to the environmental taxes and taxes with environmental impacts. Right at this point, the subject of this study comprises our assessments about whether the said liability recently adopted in our country has been positioned accurately and as it should be, as well as our suggestions on the subject matter, also considering the taxes with environmental impacts and other liabilities that are currently in dispute in international practices. In this context, it can be thought that the most common and affordable measure to cut down on the use of plastic shopping bags as one of the factors causing environmental pollution and to change consumer behaviours is therefore “to levy a tax as environmental taxes”. Once it is determined for what reasons a tax has been levied, it should be remembered that there is a contradiction between the desired objectives to be attained.

According to the OECD, environmental taxes “introduce a pricing mark that help the polluters to consider the costs of environmental pollution when taking production and consumption decisions”. On the other hand, according to the OECD, such a tax will be satisfactory if the polluter “bears the cost of the damage it causes or the cost of waste treatment.” That is, these financial measures should be based on the equivalent principle. For this reason, "Environmental taxes should be equivalent to external cost imposed on the environment; similarly, the user charge to be paid for a service has be equivalent to the costs assumed by the public sector to offer such service”. In other words, due to the allocation of the costs to the polluter, as is seen above, such financial measures (based on the Pigouvian tradition) should be included in the subject of financial obligations, such as “charges or fees” rather than in the “taxes” (Livia Salvini, 2013/2014: 83-84).

3. Determining The Legal Nature Of The Share Of Participation To Recycling

3.1. Right to Live in a Healthy and Balanced Environment

Chapter VIII of the Constitution is entitled “health, environment and housing”. The article 56 right below the relevant title is entitled “Healthcare services and the protection of environment” which suggests, “*Everyone has the right to live in a healthy and balanced environment. It is the duty of the Government and the citizens to improve the environment protect the environmental wellbeing and prevent environmental pollution. The Government manages all healthcare institutions centrally so that they deliver uniform healthcare services, in an attempt to ensure that everyone maintains a life in a physical and mental wellbeing; to achieve cooperation by boosting*

the saving and efficiency in human and material force. The Government fulfils this duty by utilizing and supervising the healthcare and social institutions in the public and private sectors."

Also, the constitutions of different countries include some provisions similar to this article imposing tasks on both the government and the citizens about the protection of environment and prevention of environmental pollution. On the other hand, the principle #16 of the regulations known as "The Rio Declaration on Environment and Development", adopted and published by UNESCO in 1992, suggests "*National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment"* (http://www.unesco.org/education/pdf/RIO_E.PDF).

Since it is included in the national and international society and in the Constitutions, such provision requires the governments to take economic measures and the citizens to bear such measures, in an effort to protect the environment, prevent the environmental pollution and thus to enable the polluters to internalise these measures. In this respect, it is a constitutional obligation in most countries to take measures against the most important factors that can be considered "pollutants".

3.2. Share of Participation to Recycling: Tax, Duty, Fee or Related Financial Obligation?

3.2.1. Legal Regulations Regarding the Share of Participation to Recycling

Thanks to the amendment made on the Environmental Law No #2872, with the Law Related To Making Amendments on the Environmental Law No. 7153 and on Some Laws, (art. #3/h) is revised as follows: "*imposing some compulsory standards to be complied with for the protection of environmental, prevention and elimination of environmental pollution as well as taxes, fees, contributions, promotion of renewable energy sources and clean technologies, share of participation to recycling, reducing the use of plastic bags and plastic packaging, collection of deposit, emission fee, pollution fee and collection of security towards the prevention of pollution and the use of economic instruments and incentives with the mechanisms based on carbon trade*". In fact, a practice parallel with the regulations that had several variations in the international was put into practice to be effective from early 2019.

Pursuant to the regulations, share of participation to recycling is imposed on plastic shopping bags, tyres (passenger car, bus, truck, vans, loaders and excavator tyres and others, heavy/construction equipment tires), solid tires, accumulators, zinc carbon batteries, alkali cylindrical batteries, alkaline button batteries, lithium button cells, lithium cylindrical rechargeable and primary cell types (excluding vehicle batteries), automotive batteries (except those containing lead), vehicle batteries containing lithium, other rechargeable batteries, mineral oil, vegetable oils, electrical and electronic device: (except for TV/monitor), electrical and electronic device: information, telecommunication equipment (except for TV and monitors), electrical and electronic device: lighting equipment, electrical and electronic device: small

household appliances and others , electrical and electronic device: White Goods (except for refrigerators/coolers/air conditioners), electrical and electronic device: Refrigerators/coolers/air conditioners and pharmaceuticals.

3.2.2. Is Share of Participation to Recycling a Tax?

According to the generally accepted definition of the tax, it is the compulsory, unrequited, monetary and final payments collected from the persons in proportion to their financial powers, to meet the public expenses. The fact that tax is unrequited separates it from public revenues with bold lines. In this context, a financial obligation can be considered a tax only if it is not allocated to an unrequited, namely a specific public expense.

The Environment Law stipulates that share of participation to recycling shall be recorded as revenue to the central budget (art.18). Failure to record it as a revenue is in fact an indication that it is an obligation in the form of a tax.

3.2.3. Is Share of Participation to Recycling a "Duty or Fee"?

The compulsory payments made for public services used are called "duty" while the compulsory payments made to obtain a permit or licence to carry out a certain business are called "fee". Both duty and fee are the financial obligations corresponding with the theory of mutual and direct exploitation. On the other hand, with respect to the share of participation to recycling, neither public service is utilized nor any permit or licence is obtained. Therefore, it does not seem possible to consider it a duty or fee (Yılmaz and Biyan, 2016: 353).

3.2.4. Is Share of Participation to Recycling "Related Financial Obligation"?

Since the practice of share of participation to recycling does not have the characteristics of duty or fee in terms of legal definition and content, can it be considered within the concept of related financial obligation as defined on the constitutional basis? As a matter of fact, the each financial obligation might be identical to tax, duty and fee in some aspects. For this reason, the term "related" in the Constitution #73 should not be construed as "limiting" or "restrictive". On the other hand, not every financial obligation, which is not a tax, duty or a fee, but a related thereto, is necessarily regarded as a related financial obligation. In this respect, it is important to determine the common characteristics required to accept an obligation as a related financial obligation. It will be a good practice to refer to the judgement of the Constitutional Court[1]. In one of its decisions, the Court delivered a judgement as follows: "Related financial obligation is the money received from the persons for the public services offered or collected by virtue of the power of the public without the presence of any

[1]For further information and remarks on Related Financial Obligations, refer to Gunes Yilmaz and Ozgur Biyan (2016). "An Uncertainty in Tax Law: The Concept of "Related Financial Obligation" and a Review of the Authorities Granted to the Council of Ministers in Terms of this Concept, Marmara University Journal of Economics and Administrative Sciences • Volume: 38 • Issue: 2 • December 2016, ISSN: 2149-1844, ss/pp. 349-374.

service. While a related financial obligation sometimes reflects some of the characteristics of tax, duty and fee, it can sometimes bear such characteristics collectively. What separates a financial obligation from a tax, duty and fee is that it is not included in the general budget[1]. In this context, it can be seen that the basic criteria required and determined by the Constitutional Court when accepting an obligation as a "related financial obligation" is that "it can be imposed by the force of public, whenever necessary" (Yılmaz and Biyan, 2016: 361). Considering these assessments and remarks, it will be appropriate to acknowledge an obligation to be levied as a share of participation to recycling, as a "related financial obligation".

4. Plastic Bag Tax in the World

4.1. Development of Practice in General

With the increase in plastic consumption since the 1950s, current studies show that is expected to consume over 600 million tons of plastic bag a year by 2038 (David Powell, 2018: 4). In order to reduce the negative impact of plastic waste on the environment, the countries try different ways to ban or prohibit the use thereof. However, the examples in practice show that the taxation policy yields more successful results than the prohibition policy does.

Denmark is the first country in the world to adopt the method of prohibition or taxation regarding the plastic bags in 1933, after which the use of plastic bags decreased remarkably by 60%. However, the best results of this tax application are seen in Ireland which adopted the implementation in 2002 (Douglas Lober, 2018).

In this context, European Union Member States have already implemented several types of policy instruments to reduce the consumption of plastic bags, including policy instruments applied alone or combined. Economic instruments are the most common measures. As an example, charging for the plastic bags via taxation at the supermarkets and hypermarkets in France, Germany and Slovakia have also reduced the consumption of plastics bags (Bio Intelligence Service, 2011). Other countries/regions including Austria, France, Netherlands, and Poland have recently started to implement the Directive 2015/720, by banning the free plastic bags or through taxation.(Graca Martinho, Natacha Balaia, Ana Pires, The Portuguese plastic carrier bag tax: The effects on consumers' behavior, Waste Management 61 (2017) 3 -12, March 2017: 4).

4.2. Overview of Country Practices

4.2.1. United States of America

The federal government in the U.S. has a very limited involvement in the solid waste management locally. The federal government does not have any duties other than providing

[1] Decision of the Constitutional Court, E.S: 2011/16, K.S: 2012/129, K.G: 27.09.2012, *Official Gazette of the Republic of Turkey* dated 22.11.2013, no.28829**.**

technical support, ensuring the establishment of landfill where solid waste is to be collected and helping to organize the waste facilities. The states, on the other hand, are vested with rather broad authorities. It is the primary responsibility of the local governments to plan and establish the Solid Waste Management (SWM), carry out the operations, determine and implement the policies for recycling, set out the regulations of commercial and organizational recycling and install the containers where the waste is to be collected, as part of the responsibility in SWM (Wagner, 2017: 3).

The laws regulating the responsibility within the scope of 33 states in terms of SMW were adopted and put into force since 2006-2007. The responsibilities and obligations of the producers are specified and the financial obligations of local governments, which need to be born independently of their costs, are also determined (Wagner, 2017: 3).

For example, $0.05 was charged for paper bags and the use of plastic bags was totally prohibited in Los Angeles. Due to such fee, the use of paper bags decreased by 16%. On the other hand, an increase was observed in the use of reusable bags. For example, 47% of the consumers went on shopping with their personal bags and did not ask for any bag. Likewise in Santa Barbara, California, $0.10 was charged for each paper bag and the use of plastic bags was completely prohibited. The consumption of plastic bags decreased by 89,3% (Wagner, 2017: 7).

While $1 was charged per plastic bag in Brownsville, Texas; $0.10 was charged in Glendale, California; $0.05 in Minneapolis, Minnesota; Montgomery and Portland, Maine (Wagner, 2017: 9).

4.2.2. Ireland

€0.15 tax was levied per bag during the sale of plastic bags in Ireland as the first country to implement the plastic bag tax in 2002. This tax was intended to control the behavior of consumers during the use of plastic bags. Upon the introduction of tax, the rate of use of plastic bags decreased significantly by as much as 90% and annual consumption per person decreased from 328 down to 21, but followed by the occurrence of a situation called “rebound effect”, which caused the usage to rise again and eventually the usage rate per person increased from 21 up to 31. The amount of tax imposed per bag was increased by €0.22 so that the usage should not increase further (Wagner, 2017: 7). Thanks to the tax levied, total bag consumption per person decreased from 328 down to 14 in 2012. Moreover, the share of bag consumption in environmental pollution decreased from 5% to 0,21% (Kılıçer, 2018: 59).

4.2.3. Portugal

“Green Tax Reform” was launched in Portugal with a legislative regulation enacted in 2014. According to the regulation that started to be implemented as of 01.02.2015, €0.10 tax (VAT inc.) was levied per plastic bag. This practice resulted in different reactions of the related parties. For example, bag manufacturers incurred losses while laying off some of their workers, and tried to shift their operations to garbage bag production or similar replacement products. In the distribution sector, the compliance was more rapid. Any possible disturbances were evaded

by distributing different products instead of plastic bags. On the part of the consumers, it was observed that they accommodated themselves rather quickly and easily. They appeared to have shifted towards the situations where they can avoid tax, also with the support of the Consumer Associations (Martinho, Balaia, Pires, 2017: 4).

Owing to the plastic bag tax implemented in Portugal, the number of bags consumed per person in each shopping reduced from 2.25 to 0.59. The use of multi-use (reusable) bags increased. However, one of the interesting points observed was the increase in the use of garbage bags although the use of plastic bags decreased. An increase by 12% was observed in the sales of garbage bags (Wagner, 2017: 7). The plastic bag tax was levied as €0.02 per bag, which was collected immediately with the sale of the bag (Wagner, 2017: 8).

4.2.4. South Africa

The plastic bag tax which was launched as of May 9, 2003 following the talks held in May 2002 between the government and the industry and employee representatives within the relevant sector, was started as 0,46 cent per bag (Dikgang, Leiman, Visser, 2012: 59) and the consumption decreased by 76% in the first three months. Then, this figure was reduced with the pressure from the manufacturers (Dikgang, Leiman, Visser, 2012: 3340). The plastic bag tax, which was shown on the sales invoices separately, was reduced as low as 0.17 cents per bag due to pressure from the manufacturers. This decrease caused a positive reaction on the consumers' side and the bags consumption began rise rapidly (Kılıçer, 2018: 60).

4.2.5. Denmark

In Denmark, which started to impose financial obligations on the bags back in 1978, as the first country to implement these levies, 20 DKK tax was charged for one kilogram of plastic bags. Freezing bags, carrying bags and zip-lock bags are exempt from the tax collected based on the principle "Those who pollute shall pay". The tax was applied either at the stage of production or during the wholesaling stage. The end users did not feel and perceive the tax directly as it was included in the price subsequently (Kılıçer, 2018: 60).

5. Conclusion

This study is intended to review, discuss and evaluate the legal effect and nature, appropriateness and suitability to the intended purpose of the share of participation to recycling, as an instrument which was introduced in early 2019 in our country and launched in an effort to protect the environment and internalise the environmental hazards, considering the debates and assessments in the international society as well as the practices of the individual countries.

While doing so, also the practices in our country will be reviewed, discussed and some suggestions will be proposed in the context of general theoretical concept of public finance and tax code, and based on the practical and theoretical discussions of international organisations as well as the practices of selected countries.

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THE EVALUATION OF THE TAX WEDGE ON MINIMUM WAGE IN TERMS OF THE PRINCIPLES OF JUSTICE IN TAXATION

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Abstract

The subject of this study is to determine the tax wedge on the minimum wage and evaluate it in terms of the principles of taxation. In the study, the tax wedge ratio on the minimum wage was calculated and it was assessed in terms of the principles of taxation by considering the tax wedge ratio on the wage of some employees working in the public sector and having a level of income above the minimum wage. The study is important in terms of eliminating the tax burden on the minimum wage and hence reducing the rate of tax wedge and making recommendations to improve the wage rights of minimum wage earners. The results of the study show that the tax wedge rate on the minimum wage is higher than the tax wedge rate on wages of other public employees. In the taxation of minimum wage workers, an inconsistency was determined in the principles of justice in terms of the factors such as tax wedge rates, in other words, tax burdens, the power to pay and devotion.

Keywords: Tax Wedge, Minimum Wage, Tax Burden, Principle of Justice.

JEL Codes: H24, H55, J31, K34.

1. Introduction

Labour compensation of employees in the workforce is calculated according to several tariffs. The subsistence level tariff is called minimum wage in Turkey. Millions of employees, who participate in the productive activities of private economic groups, are entitled to minimum wage. Moreover, some of the employees who work in the productive activities of the private sector are paid less than minimum wage while some are paid more. On the other hand, the wage scale of public officers, who perform public services, changes depending on different legal arrangements. All in all, employees who perform different productive activities are subjected to different wage scale. Therefore, the tax burden regarding the wage differs.

The tax burden on wages has been attempted to be defined through diverse ratios in finance. One of these ratios is the tax wedge ratio. Tax wedge refers to the ratio between the total tax paid over an employees' wage and the labor cost for an employer. This study aims to examine the tax wedge on the wages of minimum wage workers and public officers who rank among middle and higher income groups according to the wage scales in 2019. Further, the current study evaluates these ratios in terms of the principles of justice in taxation. The results of the study,

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which has touched upon one of the most highly debated issues, have found support for the public opinion which asserts that tax burden on minimum wage must be alleviated. In this respect, the results of the study are particularly important. The study deals with minimum wage workers and public officers from four different income levels. Further, the wages of these groups are evaluated. In terms of methodology, the study has adopted a qualitative perspective through a systematic literature review.

2. The Tax Wedge and Rate Within The Concept of Tax Burden

Tax is a kind of public revenue which is collected in order to finance the public services under compulsion on a complimentary basis from the ones who earn income. The terms in the description reflecting the characteristics of tax being collected "*under compulsion*" and "*on a complimentary basis*" lead to the impression of the fact that it is considered as a burden by the relevant individuals. This burden refers to the rational relationship between the income being earned in a particular period (this period can be defined as settlement period) and the payments rendered to the state and other public corporations (Kılıçaslan & Yavan; 2017: 35). Indeed, the tax burden is defined as the total amount of the taxes paid in a country which includes direct and indirect taxes (Nar, 2015: 688). The tax burden concept to be handled in this study refers to the personal tax burden. Personal tax burden reflects the relationship between the total amount of taxes paid by the individual and the total income of the individual (See: Pehlivan, 2013: 160-161). All these statements indicate that the tax wedge is considered as a factor in the calculation of the ratio of the tax burden, particularly of wage income.

Tax wedge is a concept that measures the tax burden on social insurance contributions and wages (Radu et. al., 2018: 688). It is clear that the tax wedge can be expressed either as a fixed price or it can be expressed through proportion (See: Tuncer, 2012: 69). Therefore, the difference between the gross wage (or the total amount paid by an employer to an employee) and net wage is considered as tax wedge (Festa, 2015: 140; Tuncer, 2012: 69). Indeed, the tax wedge specified above indicates the tax burden on the wage. In the literature, the tax wedge is also defined as a ratio (See: Nar, 2015: 689-691; Buyrukluoğlu & Kutbay, 2016: 262; Gülşen & Öztürk, 2016: 21). According to the definition accepted by Organization for Economic Cooperation and Development (OECD), tax wedge is determined as the ratio of the difference between the total cost of an employee to the workplace and the net wage of the employee on the total cost of an employee to the workplace (Tansöker, 2017: 317; Gabrilo, 2016: 233).

3. The Scope of the Tax Wedge Rate

Besides income tax imposed on employees, stamp duty and employees' share of social insurance contribution are included in the scope of the tax burden on income within Turkish tax and social security law. Further, unemployment insurance deduction is also in this scope. On the other hand, social insurance contribution paid by employers and unemployment insurance deduction are the main values in the assessment of tax burden on wage.

4. The Tax Wedge In Varied Wage Practices in 2019

In order to evaluate the tax wedge on wage according to principles of justice in taxation, a total of five different wage tariffs considering the wages in January 2019 will be discussed under this title. In order to secure an evaluation that reflects the Turkish social structure, a non-exempt employee, who is presumed to be married to an unemployed spouse and has two children, is handled. Table 1 below displays the tax wedge rates according to income levels of employees and other statistics.

Table 1. Tax Wedge Rates of Employees According to Income Levels and Other Statistics

Employee	Gross Wage / The total cost of the employee for workplace (TL)	Net Wage (TL)	Income tax paid in January (TL)	The tax burden on the wage (TL)	Tax wedge rate (exclusively for January) (TL)
Minimum wage worker	2.558.40	2.116.85	38.38	889.27	29.5 %
Ordinary public officer	6.119.48	4.606.22	6.75	1.489.68	24.3 %
A qualified officer who is employed according to the law no. 5434 (middle income)	8.348.18	6.380.31	10.83	1.761.60	21.1 %
A qualified public officer who is employed according to the law no. 5510 (middle income)	7.219.67	5.823.15	10.83	1.249.14	17.3 %
A qualified public officer (high income)	14.788.10	11.748.47	94.68	2.853.62	19.2 %

According to Table 1, the tax wedge rate on minimum wage is calculated as (889.27/3.006.12 =) 29.5 % for January exclusively. Under the light of the data displayed in Table 1, the tax wedge rate on the wages of ordinary public officers is 24.3 %. The tax wedge on the wages of the employees who are employed according to the law no. 5510 among other public officers who are called qualified public officers and fall into the middle-income group is 17.3 %. The tax wedge rate on the wages of the public officers who are employed according to the law no. 5434 is 21.1 %. Further, the tax wedge rate on the wages of the qualified officers who rank among the high-income group is 19.2 %. Despite all these calculations, OECD data regarding tax wedge varies. OECD data reported the mean tax wedge rate as 38.65 %, based on the wages paid in Turkey in 2017. The mean of OECD countries for 2017 was approximately 36 %.

5. The Evaluation of The Tax Wedge on Subsistence Wage in Terms of Taxation Principles

5.1. The Evaluation of The Tax Wedge on Subsistence Wage In Terms Of The Principle of Justices in Taxation

The justice principle in taxation refers to the release of taxation according to financial power besides the fair and well-balanced distribution of tax burden. In other words, according to this principle, taxpayers' personal and financial conditions are needed to be taken into consideration in taxation.

On a non-discriminatory basis, the ones who are dependent on minimum wage and the public officers exercise their subsistence reduction rights under the same conditions. For example, a person who is dependent on minimum wage with two children and an unemployed-spouse and a public officer receive 287.82 TL discount for the year of 2019. This is not a matter of hesitation. However, the fact that the employees who receive minimum wage in return for their service and the employees who rank among high-income group have the same subsistence discount is an important issue which needs to be considered in terms of the principle of equality. These two groups of employees have a different level of income, therefore, they are needed to be subjected to different taxation conditions. In this sense, in the calculation of the subsistence discount for the employees with minimum wage, it is important that there need to be different practices in the main parameters. On the other hand, it is clear that there will be no hesitation in applying "graduated tariff" to the employees with minimum wage and the employees who rank among the high-income group or paying attention to "principle of segregation". Further, graduated tariff leads to taxation of the employees who rank among the high-income group at higher rates in the upcoming months of the year which is an important instrument that reflects the power of solvency. Nevertheless, as it is clear from the examples handled in the current study, the employees with minimum wage and other public officers finalize the year as being taxed according to 20% ratio specified in the second part of the tariff in ITL article 103, almost in the same period of the calendar year. At this point, there appears a situation that is against the principle of solvency.

The "fair and well-balanced distribution of tax burden" which is the other extension of the principle of justice is handled in the second paragraph of article 73 in the Constitution of the Republic of Turkey. In this sense, the sovereign authority is expected to set a fair and well-balanced taxation system. Therefore, it is reasonable to propose that unbalanced taxation and the tax burden which does not consider taxpayers' solvency is against the constitution. The tax wage of the salary of a minimum wage worker, who is paid 2.116,85 TL as net pay, with two children and an unemployed spouse, is about 30%, whereas the tax wage of the salary of public officers is around 17-25%. The main reason of this situation is that besides base pay, the public officers receive other payments from their employers (university allowance, education allowance, educational indemnity etc.) which are free of tax and tax assessment. For this reason, the tax assessment of a minimum wage worker is above the tax assessment of some public officers. This contradicts with the principles of fairness, equality, and solvency in taxation.

Because, when the tax burden of the salary of a minimum wage worker who is paid 2.116,85 TL net pay is compared to the tax burden of the salary of a public officer (ranges from 4.500 to 11.700 TL), it is clear that the solvency of a minimum wage worker is ignored. On the other hand, this is against the rationale of justice of income distribution and collecting duty "more from the ones who earn more, less form the ones who earn less" which serves the goal of social justice and equality. The personal income tax of a minimum wage worker in January is 38.38 TL. on the other hand, the personal income tax of a public officer who receives more than 4.000 TL salary is 6.75 TL. Besides, the personal income tax of a public officer who ranks among the high-income group and receives more than 11.500TL salary is about 1000TL. Beyond any doubt, the effect of the personal income tax of a minimum wage worker on the total tax burden is easy to be overlooked. However, while the effect of the social security contribution is not the same, it needs to be ruled out through several practices. The principle of equality which is the other extension of the principle of justice refers to the consideration of all factors in the determination of solvency. It is apparent that the conditions for minimum wage workers and public officers who rank among the middle and high-income group are different. Nevertheless, according to the aforementioned data, these workers who are dependent on different conditions seem not to be taxed differently. In that case, it is safe to state that the principle of equality is ignored.

From a different viewpoint, the tax burden of minimum wage workers, which is the result of the taxation based on the principle of "proportional equal sacrifice", is against the principle of justice. Because, the marginal benefit which is provided by when the amount of tax burden on the salary of minimum wage workers is turned into the disposable income is not the same with the marginal benefit which is provided by when the amount of tax burden on the salary of public officers from the middle or high-income group is turned into disposable income.

5.2. The Evaluation of The Tax Wedge on Minimum Wage in Terms of The Principle of Generality in Taxation

Whereas the principle of generality in taxation refers to the fact that everyone pays tax in order to cover the public expenses, because of economic, social, political or cultural reasons, some of the individuals who have solvency being treated as free of tax through tax immunity or exception is considered a contradiction to this principle (Pehlivan, 2018: 23). One of the situations that contradict with the principle of generality is the tax exemption of the taxpayer because of economic reasons. When the tax wedge rate on the salary of minimum wage workers is compared to the tax wedge on the salary of public officers, it is essential to remit the tax burden on the salary of minimum wage workers considering the current economic conditions despite it is a deviation from the principle of generality.

5. Result

Despite it is under the mean rate of OECD, the tax wedge/burden on minimum wage, exclusively depending on the current economic conditions, is rather high. When compared to the middle and high-income group, minimum wage workers are disadvantaged considering the income tax and tax wedge rates on the wage. This contradicts to the principles of justice in taxation. Some

precautions need to be taken on this issue which has been being widely discussed in public opinion. Hence, minimum wedge discount of minimum wage workers should be treated differently. The tax wedge on the salary of minimum wage workers (especially employee's share of social security contribution) should be removed through either governmental incentive or subsidy or tax concession. In this way, on one hand, minimum wage worker's 2.116,85 TL salary can catch up the desired levels (through turning the social security contribution into disposable income), on the other hand, the minimum wage can be caught up with the rate of tax wedge on the wages of public officers. Surely, it is important to take precautions against the abuse of the governmental incentive, subsidy or tax concession.

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ALTERNATIVE MINIMUM TAX

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Abstract

One of the main problems of the Turkish Tax System is that the tax revenues of indirect taxes are very high compared to direct taxes. Taxpayers can reduce their income and tax burden by using exceptions, exemptions and reductions, and may state low income and / or tax base. In this case; the policy that should be implemented is to include into the tax system the people who must pay more taxes according to their economic. Implementation of this policy is not as easy as increasing the tax rates. Because it is necessary to determine the methods of tax exclusion and to block these methods.

Alternative Minimum Tax (AMT) is a compulsory alternative to the regular income tax in the United States. In this alternative; some taxpayers' liabilities are calculated twice once according to the regular Income Tax rules and once according to the AMT rules. This study will mainly focus on the AMT, which came into force in 1969 to struggle against similar problems in the United States. In order to better understand the AMT; general principles, historical development, purpose and its implication will be explained; the criticism of the structure of the AMT will be put forward and it will be explained whether such a tax will be benefited if it is implemented in Turkey.

Keywords: Income Taxation, Alternative Minimum Tax, Tax planning, Tax Avoidance

JEL Code: H25, H26, K34

1. Introduction

One of the main problems of the Turkish Tax System is that the indirect tax rates in tax revenues are quite high compared to direct taxes. In Turkey in 2018, while the ratio of income taxes (income and corporate tax) in general budget tax revenues was 35.17 percent, it is observed that the ratio of value added tax and special consumption tax in domestic and imported expenditures was 52.25 percent (Revenue Administration, 2019). This is a problem in terms of the taxation principle according to the ability to pay. The main reasons for this problem is the high ratio of indirect tax on expenditures and the facility to avoid direct taxes. Taxpayers can reduce their income and corporate tax burdens by using exception, exemption and deductions, and they can lower their tax bases even if they obtain high income. This problem is often reflected in the press. In particular, the news reports that people in certain sectors pay very low taxes on their incomes (Hürriyet, 2002; Sabah, 2006; Habertürk, 2014).

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Especially the increase in the tax rates come to mind in these days while the increase in the budget revenues is on the agenda. In fact, this method is effective and simple as well. Motor Vehicle Tax and corporate tax rate increases made last year are typical examples of this situation (Gökçay & Altan, 2018: 120).

This practice, which is effective and simple, is not suitable for tax justice. In this practice, the burden on the people who enter the tax system and carry the tax burden increases, but the effect is limited to those who are out of the system or who reduce the tax burden by tax planning or tax avoidance methods. This increases the inequity between taxpayers who pay their tax on time and the taxpayers who have the opportunity to plan and avoid it according to their real economic power (Gökçay & Altan, 2018: 120).

In this case, the policy that should be implemented but not simple to implement is to include the economic powers of those who need to pay more taxes, but reduce the tax burden within the scope of the tax system. This policy is not as easy and simple as increasing tax rates. Because it is needed to determine these person's methods of tax planning and avoidance and take precautions against these methods.

In this study, the "Alternative Minimum Tax" (AMT), which has been developed in the United States to struggle similar problems, will be examined. In order to better understand this tax, first of all, the historical development of AMT, its general principles, its purpose and its implication will be explained; criticism of its structure will be revealed and it will be discussed whether such a tax will benefit from the application of our country.

2. Historical Development of Alternative Minimum Tax

AMT is a mandatory alternative to regular income tax in the United States. This alternative is implied in the form of calculation of some tax payers ' responsibilities twice - once in accordance with the regular income tax rules and once in accordance with the AMT rules - and then in the form of higher payments.

In 1969, Secretary of the Treasury Joseph W. The Barr reported to United States Congress that 155 tax payers with income exceeding $ 200,000 did not pay federal income tax in 1966. Thereupon that year Congress members received more constituent letters about those who did not pay their taxes than those related to the Vietnam War. The Congress, which could not remain indifferent to these pressures, made arrangements for the additional minimum tax that real persons would pay in addition to the regular income tax. This tax has been implied to certain items of income that have not been or low taxed under the scope of the regular income tax (Burman, 2007: 12 – 13).

In 1979, Congress adopted the AMT to implement a synonym for the additional minimum tax. Various income items have been transferred to AMT through additional tax. The Congress repealed the additional minimum tax in 1983 (Burman, 2007: 16).

Until the end of the 1990s, AMT has affected nearly 1 million taxpayers per year. Congress adopted The Economic Growth and Tax Relief Reconciliation Act (The United States Congress, 2001), which significantly reduced regular income taxes in 2001, but did not include a major

change in AMT. The number of taxpayer subject to AMT has increased over the years since the inflation adjustment of the regular income tax levies was made but the inflation adjustment of AMT levies were not made (Tax Policy Center, 2005; Peckron, 2005: ıx).

On December 22, 2017, President Trump signed the "Tax Cuts and Jobs Act" (the United States Congress, 2017). With this law, an exemption was granted until 2025 even though AMT was protected. With this change, number of people affected by AMT fell to 200,000 in 2018 while 5 million people were affected by tax in 2017 (Tax Policy Center, 2005).

3. Purpose of Alternative Minimum Tax

Exemptions, exemptions and reductions can significantly reduce taxpayers ' tax burdens. AMT is applied on the basis of restricting these facilities that reduce tax burdens of taxpayers who has more economic powers than they declare in their tax returns. AMT aims to taxpayers pay the minimum amount of tax (Internal Revenue Service, 2019; Peckron, 2005: x).

Some exceptions, exemptions and reductions permitted in the calculation of regular income taxes are not allowed in the calculation of AMT. This characteristic of AMT extends tax base (Peckron, 2005: x).

However, the fact that the structure of AMT is not indexed to inflation can result in the increase of the tax burden over the middle income people instead of those in the upper income segment targeted to be included in the scope of the tax system[1].

4. Process Of Alternative Minimum Tax

In order to determine whether there is any additional tax liability within the scope of AMT, the form no 6251 has to be completed. In the form no 6251, certain types of income and income or losses related to the disposal of the property are declared. This form also guides the taxpayer in determining whether the general limits set by the Internal Revenue Service for medical expenses, mortgage interest and other deductible expenses are exceeded.

AMT basis is calculated differently than the regular income tax base. Various expenses, exemptions and deductions that are permitted to be deducted in the regular income tax are not allowed in calculating AMT. At this point, the regular income tax and the calculation of AMT differ. In calculating the AMT basis, nondeductible discounts are added to the taxpayer's income and AMT exception is issued. In this way, the final AMT liability is calculated.

The calculation process of AMT liability is as follows (Peckron, 2005: 8 – 9):

1. Calculation of taxable income (according to the regular income tax). The calculation shall be made by taking into account the form no. 1040.
2. Actualize various additions and deductions to taxable income.
3. Calculation of income subject to AMT
4. Take account of exceptions.

[1] In order to prevent this result, Congress enacted a law that indexed the AMT structure to inflation in 2015.

5. Calculation of AMT basis
6. Calculation of AMT
7. Deduction of taxes and other taxes paid abroad
8. Calculation of temporary AMT
9. Comparison to regular income tax
    a) If AMT liability is more than the regular income tax liability, the difference will be paid (regular income tax liability and AMT difference calculated in the form No. 6251)
    b) If the regular income tax liability exceeds AMT liability, the payment of the regular income tax lability will be paid

As can be seen in the process, the first step in calculating AMT is to calculate the regular income tax on the basis of the explanations in the form No. 1040. After calculating the regular income tax, it is calculated whether various exemptions, costs and deductions that are not allowed within the scope of AMT are deductible under the exemption threshold for AMT (Peckron, 2005: 6).

The main deductions allowed in calculating AMT base are (Peckron, 2005: 24);

- Tax refunds (these are usually related to paid federal tax).
- Alternative tax net operating loss deduction

The exceptions and deductions that are not allowed in calculating AMT basis are as follows (Peckron, 2005: 24);

- Home Mortgage Interest (Mortgage interest can be reduced only if the loan is used to buy, build or improve the House.)
- Medical Expense
- Miscellaneous (specified in the 5 line)
- Taxes (state, local, etc.)
- Interest from specified private activity bonds exempt from the regular tax
- Net operating loss deduction
- Personal Exemption (Instead of listing personal exemptions in the form No. 6251, the income subject to tax before personal exemption is taken into consideration in the form).
- Standard Deduction (instead of listing the regular deductions in the form No. 6251, the income subject to tax before the standard deductions in the form is taken into consideration.

Exception limits for AMT are as follows;

- $109.400 for married filing jointly and surviving spouses
- $70.300 for single or head of household
- $54.700 for married filing a separate return

The exception limit is quite high compared to 2017. The exception limit, which was 109,400 dollars in 2018, was increased from $ 84,500 and the limit of 70,300 was increased from $ 54,300 (Carlson: 2018).

Those who earn income above these limits must pay AMT. However, in this case, the relevant limits constitute an exception amount. For example, a single peson who has $ 95,000 in income

will pay this tax for the remaining $ 24.700 after $ 70.300 is deducted from $ 95,000 (Peckron, 2005: 5).

Although the AMT's exception amount is above the regular income tax, the exception amounts begin to decline after the person's income rises above a certain level called “Phase-out”. According to this, the exception for each dollar exceeding this level is reduced by 0.25 dollars if more than $ 1.000.000 for married couples and more than $ 500,000 for others. It should be noted that these ratios have been increased by “Tax Cuts and Jobs Act” from 2018 to 2025. In 2017, these ratios were 160.900 dollars for married couples who completed the form together, 120.700 dollars for single and/or family head return, and 80.450 dollars for those who are married and separate returns (IRC, 26; Amadeo: 2019).

AMT has an increasing tariff of two rates. Accordingly, in 2018; the person who makes the income up to $ 19.100 of the exemption amount will pay 26% and the person who makes the income over this amount will pay the tax rate of 28%[1]. Therefore, AMT's proportional structure is only a 2-ratio structure, contrary to the usual income tax between 10% and 37% (Peckron, 2005: 14).

If the amount calculated by taking into consideration the allowed/not allowed expenses and discounts in the form No. 6251 and the AMT exception amount is more than the regular income tax calculated on the basis of the form No. 1040, the taxpayer is obliged to pay the difference (IRC: 26; Amadeo: 2019; Peckron, 2005: 12 – 13).

AMT calculation is an obligation to be performed by taxpayer every year. The absence of AMT liability in one year does not affect AMT liability in the following year (Peckron, 2005: 12).

5. Criticism of The Structure of Alternative Minimum Tax

It should be noted that the purpose of AMT is to tax those who have high economic power, but who pay less taxes within the facilities of tax planning or avoidance. But in fact the middle income people included in the scope of AMT (Burman, 2007: 22). The main criticism of AMT is that the expense, discount and exception structure in this tax transferred the tax burden over the middle income class instead of the high income class (Peckron, 2005: 1-2).

In addition, increasing the complexity of taxation and making tax planning difficult are other criticisms (Burman, 2007: 18; Peckron, 2005: 14).

It is assumed that an effective tax system will promote economic efficiency or at least not undermine efficiency too much. However, it is stated that most of the taxpayers will actually face higher tax burden than the regular income tax and this will adversely affect the decisions regarding labor supply, consumption and saving (Burman, 2007: 18).

[1] In the United States, income tax has an increasing rate of tariff as in our country. According to this percentage 10, 15, 25, 28, 33, 35,39.6 rates updated to 10, 12, 22, 24, 32, 35 (Smith & Howard: 2018).

6. Conclusion

AMT is a mandatory alternative to regular income tax in the United States. This alternative is applied in the form of calculation of the responsibilities of some tax payers twice and payment of the high amount.

Exemptions, exemptions and reductions can significantly reduce taxpayers ' tax burdens. AMT aims to limit these possibilities to reduce the tax burdens of taxpayers with high economic powers and to provide the minimum amount of tax payments.

Some exceptions permitted in the calculation of regular income taxes are not allowed in the calculation of AMT. At this point, the calculation of regular income tax and AMT is different. This property of AMT extends tax base.

In calculating the AMT basis, discretionary discounts are added to the taxpayer's income and AMT exception is issued. In this way, the final AMT liability is calculated.

AMT is criticized for the fact that the tax burden remains above the middle class, increases uncertainty in taxation, makes tax planning difficult, and reduces economic efficiency.

In the Turkish tax system, the fact that taxpayers can reduce their income and corporate tax burdens by using exceptions, exemptions and deductions and show their income tax base above their economic powers even if they obtain high income generates negative results in terms of efficiency and fairness in taxation.

In particular, the use of these tax conveniences by certain sectors and income groups intensifies the tax burden on indirect taxes and paid cuts.

In the New Economy Program (2019-2021), in the context of public finance, it is on the agenda as a policy measure to gradually increase the tax base by removing the exemptions and deductions that are not effective in order to consolidate justice in the tax.

The constitutional principles of tax (especially the principle of ability to pay) should be taken into account and initiate a discussion whether it is necessary to generate an alternative income tax in the Turkish tax system.

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THE DESCRIPTION AND COMPARISON OF BUDGET SYSTEMS: THE CASE OF TURKEY (1924-2018)

Haydar Lütfü EJDER[1] **Melek Sena CANGİR**[2]

Abstract

The budget is an important economic policy tool for policy-makers, as well as its classical functions. Countries choose of budget systems according to their political, economic and social aspects is important in terms of economic, effective and efficient use of public resources. In this study, the positive and negative aspects of budgetary systems are specified and they are compared on the basis of performance criteria. In this context, the actual budget system changes in Turkey were examined whether they are Assoc.d with budget deficits, growth and unemployment. Examination of the tables created from time series of the mentioned macro variables, It was concluded that there was a parallelism between the system changes and budget deficits, system canges were followed by an increase in extra-budgetary expenditures while there was no noticeable relationship with the other two variables.

Keywords: Budget, Budget Systems, Comparison of Budget Systems, Performance Criteria

JEL Code: H61, H62

1. Introduction

Budget is the main tool for the control, management, and production of interactions between macro-level financial instruments and institutional financial instruments. The budget system that is compatible with the political, social, economic and financial structure not only forms the macroeconomic and institutional financial instruments in that direction but also ensures the economic, effective and efficient use the public resources. In this study, budget systems used in Turkey and the necessity of using them is explained by pointing to the positive and negative aspects of these systems. Additionally, the impact of the budget system changes on macro economic variables and on the financial control as a whole is analysed.

Budget systems, respectively, are presented as the traditional budget system, performance budget system, program budget system, planning-programming-budgeting system.

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2. Budget Systems

Budget system is an important tool that both forms the preparation, implementation, and control of the budget and ensures the system efficiency as a whole. Additionally, budget systems have emerged and diversified within the development process of the economy in accordance with the demand of the society from the state. (Bülbül vd., 2005: 56)

2.1. Traditional Budget System

Traditional budget system has two important elements. The first one is concerned with which resources are allocated to which expenditure unit while the second one is related to the administrative dimension of spending process. As the grants are given at the unit level, these budgets are also called the "organization budgets". In the literature, the name "expenditure items budget" is also used. The focus of the traditional budget system is on the amount that is to be spent. The logic behind and expected benefits of the expenditures on the other hand is not taken into account. (Tüğen, 2007: 107)

Table 1. Advantages And Disadvantages Of Traditional Budget System

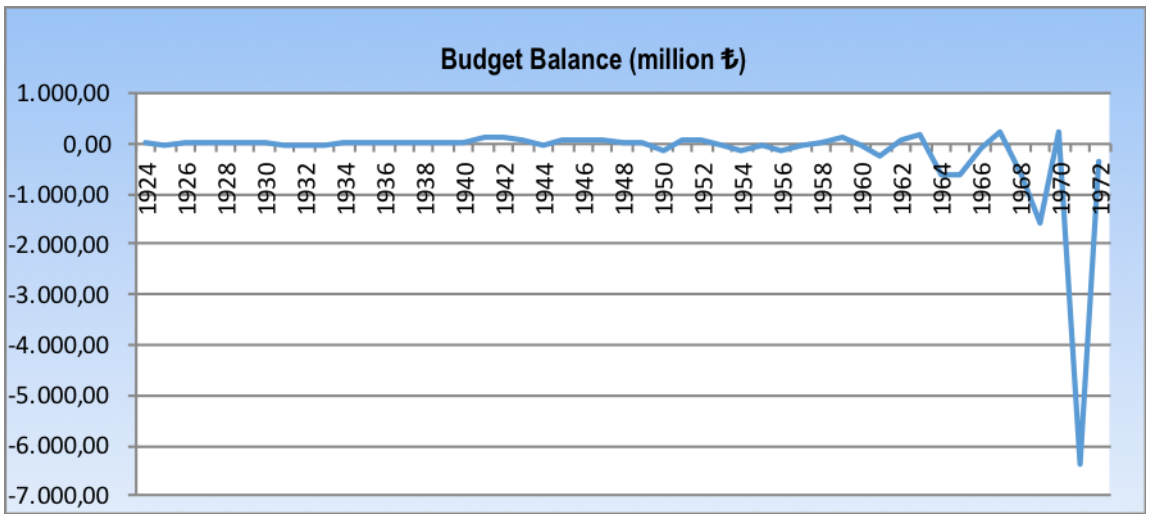
Traditional Budget System	
Advantages	**Disadvantages**
It provides a framework of control	**Disconnection from strategic plan**
Makes it easier to manage activities	Causes waste
Functional	Causes inefficiency in resource allocation
It accommodates the need to decentralise	**Low change responsiveness**
Annual forecast is easy	Doesn't encourage innovation
Provides stability	Repeats incorrect estimates
Provides consistency	Application causes a loss of time
It is part of organisational culture	**Performing only financial audit (Account audit)**
Specialization	Prone to data entry errors

Source: TRG International,How To Create An Advanced Budgeting System, 2009:5-6. (Compiled by author.)

2.1.1. Traditional Budget System: The Case of Turkey [1924-1972]

Turkish public financial management to a large extend depends on law no 1050 which dates back to the beginning of the Republic of Turkey. This law, which entered into force in 1927, was implemented with very few amendments near to eighty years. However, over time, especially after 1980s, rapid changes in economic and social economic areas made it necessary to reconsider the public financial management system. The budget deficits during 1970s ve 1980s is one of the clearest indicator of this fact.

Graphic 1. Consolidated Budget Income, Expense and Balance [1924-1972]



Source: BÜMKO Statistics, 2018.

2.2. Performance Budget System

The priority of performance (business) budget is on the way a public service is performed, while on the macro level it aims to increase efficiency in public administration.

The performance budget focuses on what government does and achieve, rather than what it buys. Thus, the benefits earned or provided from a particular expense is important. Expenses that serve specific purposes in the performance budget are collected in the same programs and the costs and benefits of each program are calculated. The value of the performance budget comes from the fact that it is a management tool. It is a tool that administrators can use to ensure efficiency and effectiveness. (Edizdoğan, 2004: 388).

Table 2. Advantages and Disadvantages of Performance Budget System

Performance Budget System	
Advantages	**Disadvantages**
Clear purpose	**Subjectıve**

It becomes easier to assess the performance and correct the deviations	Monetary value of social projects is difficult to calculate
Transparency is in the foreground	Costs may vary from institution to institution
It helps to increase the accountability	**Need a strong evaluation system**
Performances are evaluated periodically	The performance budget requires a strong system of accounting
Performance measurement based on outputs	The reporting system needs to be accurate and complete
Performance measurement is subjective	There is a possibility of changing the data
Improvement in performance	**Existence of implementation difficulties in long-term projects**
Efficiency-oriented	It makes difficult to measure the results of the projects in long-term

Source: Efinancemanagement- Budgeting- Performance Budget, 2018. (Compiled by author.)

The experimentation with and experience of performance budgeting are wide ranging. Because performance budgeting develops at various stages in terms of how performance information is used in the budgeting process, this chapter distinguishes performance budgeting in four categories:

Performance-reported budgeting (PRB) presents performance information as part of thebudget documentation, but budgetary actors do not use itfor resource allocation.

Performance-informed budgeting (PIB) refers to a budgeting process that takes program performance into account but uses the information only as a minor factor in making decisions.

Performance-based budgeting (PBB) implies that performance information plays an important role for resource allocation, along with many other factors,but does not necessarily determine the amount of resources allocated.

Performance-determined budgeting (PDB) means that allocation of resources is directly and explicitly linked to units of performance (Shah & Shen, 2007: 153).

2.2.1. Transition Process to Performance Budget System: The Case of Turkey [1973-2005]

Performance-based budgeting was introduced in Turkey in 2006 with the law numbered 5018. Looking at macro variables such as budget balance, growth, and unemployment can a connection be observed between the system change and the performance of these variables? In that connection what is seen in the data is the rise of the budget deficit just before the system change. (See Chart 6. Consolidated Budget Income, Expense, and Balance (1973-2005)

However, there seems to be no discernable correlation between the system change and the other variables.

2.2.2. Performance Budget System: The Case of Turkey [2006-2018]

Performance based budgeting was put into effect within the framework of the following principles:

• Determination of measurable targets in accordance with the policies set out in Law No. 5018.

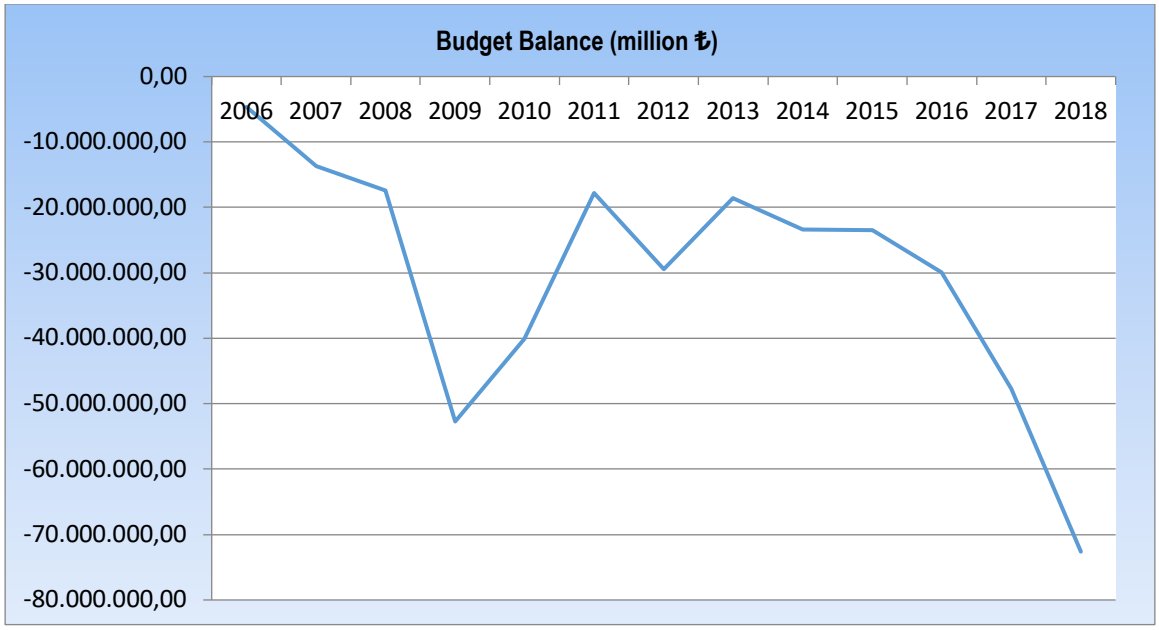
• Calculating the cost of the identified targets (resource allocation).

• Providing administrative and financial flexibility to managers and organizations in achieving the targets.

• Monitoring the results by taking into consideration the targets set at the beginning.

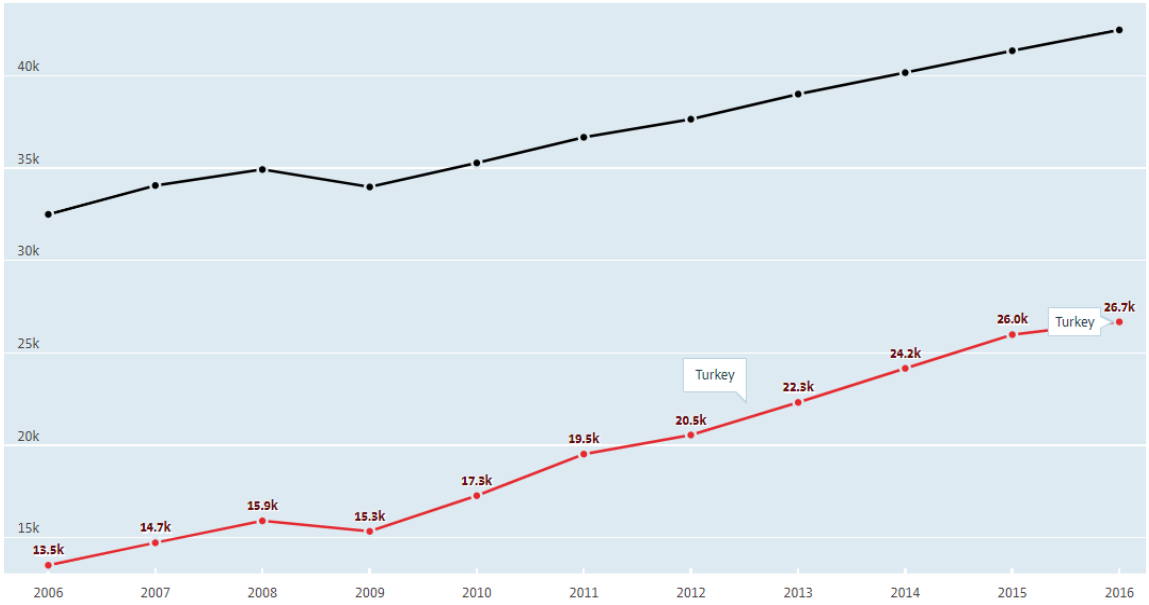
It appears that performance-based budgeting is intended to ensure efficiency both at resource allocation and resource utilization level together.

Graphic 2. Central Government Budget Income, Expense and Balance [2006-2018]



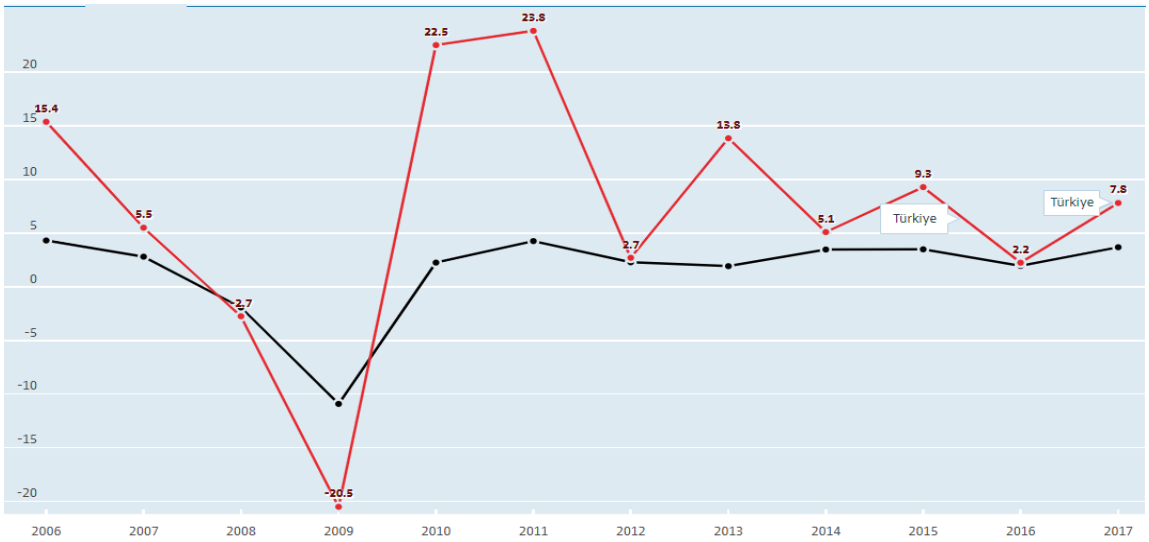
Source: BÜMKO Statistics, 2018.

Graphic 3. Turkey Gross Domestic Product [2006-2016] (US $ / Capita)



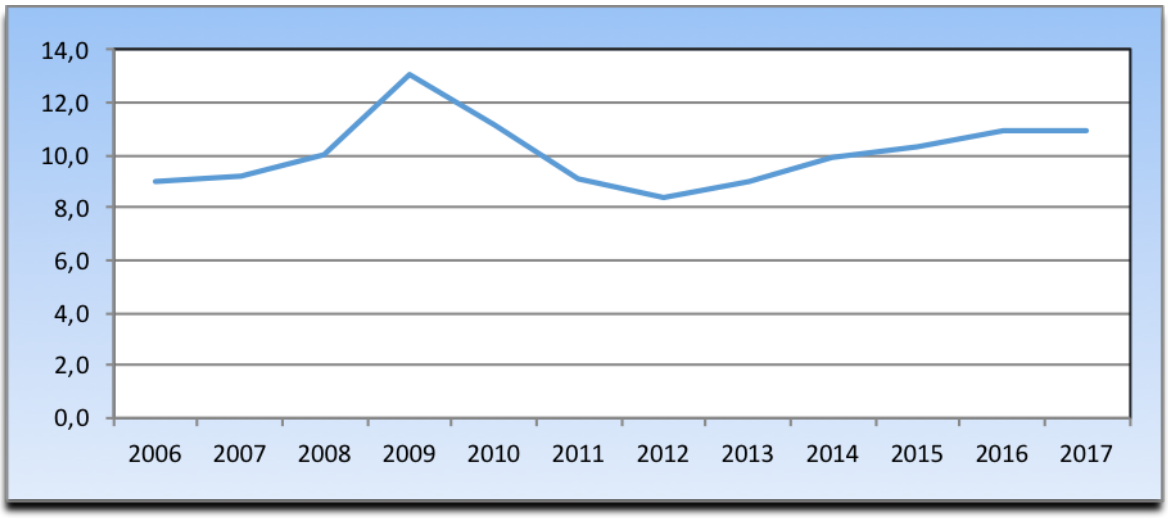
Source: OECD Data, 2016: https://data.oecd.org/gdp/gross-domestic-product-gdp.htm#indicator-chart
*Data were calculated using purchasing power parity

Graphic 4. Turkey Annual Growth Rates (%) [2006-2017]



Source: OECD Data, 2016: Growth rates are composed of investment expenditures. https://data.oecd.org/fr/gdp/investissement-fbcf.htm

Graphic 5. Turkey Unemployment Rate (%) [2006-2017]



Source: TÜİK, Labor Force Statistics 2017:https://biruni.tuik.gov.tr/isgucuapp/isgucu.zul

As regard to effect of the system change on the macroeconomic variables during that period, the following observations are in order:

The first significant deterioration in the budget balance was realized in 2009. The deterioration trend, which started again in 2013, continued until 2018, which is the last year with realized data. The striking point here is that the worsening of the budget balance was accompanied by the transition to the program-based performance-based budget system in 2017-18.

There is no discernible relationship between changes in the budget system and other data.

2.3. Program Budget System

Program budget aims, in addition to performance, also to determine what is to be done optimally in terms of cost and welfare.

Table 3. Advantages and Disadvantages of Program Budget System

Program Budget System	
Advantages	**Disadvantages**
Makes priority rankings	**Late adaptation to changes**
Reduces costs	It is difficult to adapt resource changes to the budget
Prevents waste	Changes in spending may cause budgeting of double spending

Gives management and responsibility to all levels of the institution	**Multiple layers of administrators govern a project**
Encourages innovation	Decision-making is difficult
Incorrect estimates do not repeating	Idea differences can prolong the decision process
Ensures efficiency and effectiveness in resource allocation	It causes a loss of time
Adds accountability to the organization	**Difficult to measure costs**
Allows performance measurement	The performance of the project is difficult to assess

Source: Program Budget, 2018. (Compiled by author.)

In that connection it rankes the targets that are determined by the public authorities. For that reason, programs and sub-programs are made on the basis of activities/projects. This hierarchical program structure covers also the classification of analytical budget.

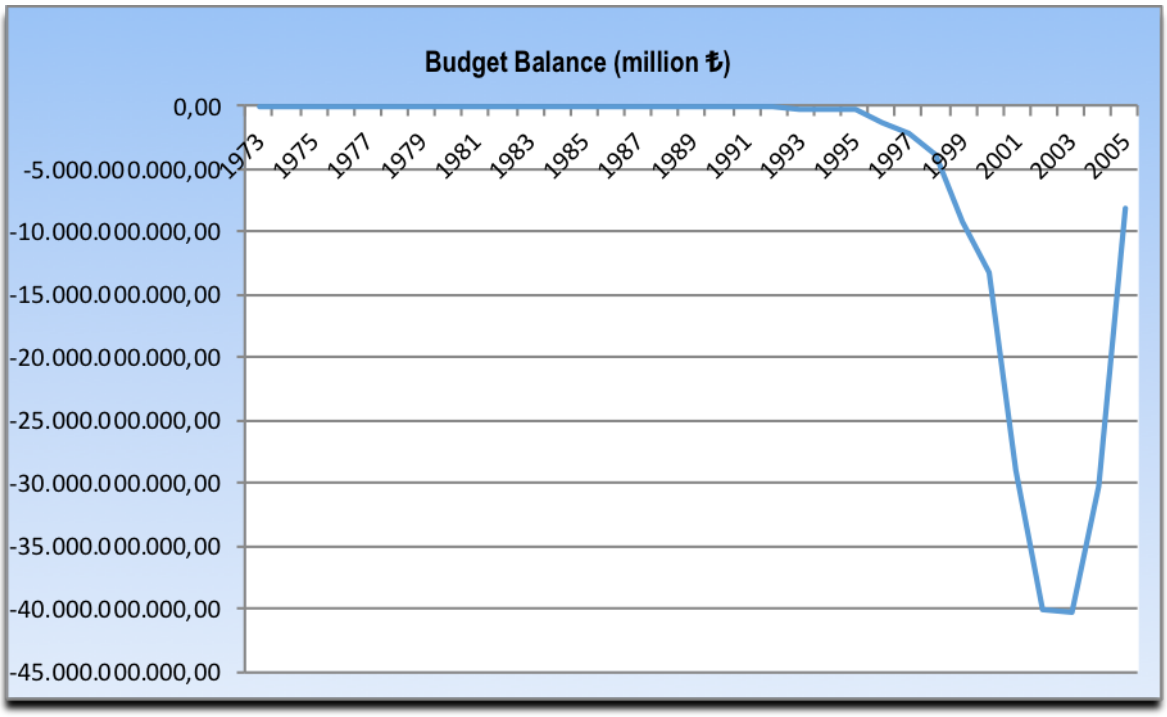
2.3.1. Transition Process to Program Budget System: The Case of Turkey [1924-1972]

It is possible to make the following conclusion regarding the consolidated budget balance during the period of 1924-1972: Until 1967, it followed a relatively stable course. However, after 1967, a visible deterioration is observed. On the other hand, at the beginning of the 1970s transition to program budget had started. This seems to suggest that there may be a correlation between deterioration in the budget balance and the attempts to change the system (See Chart 1. Consolidated Budget Income, Expense, and Balance [1924-1972]).

2.3.2. Program Budget System: The Case of Turkey [1973-2005]

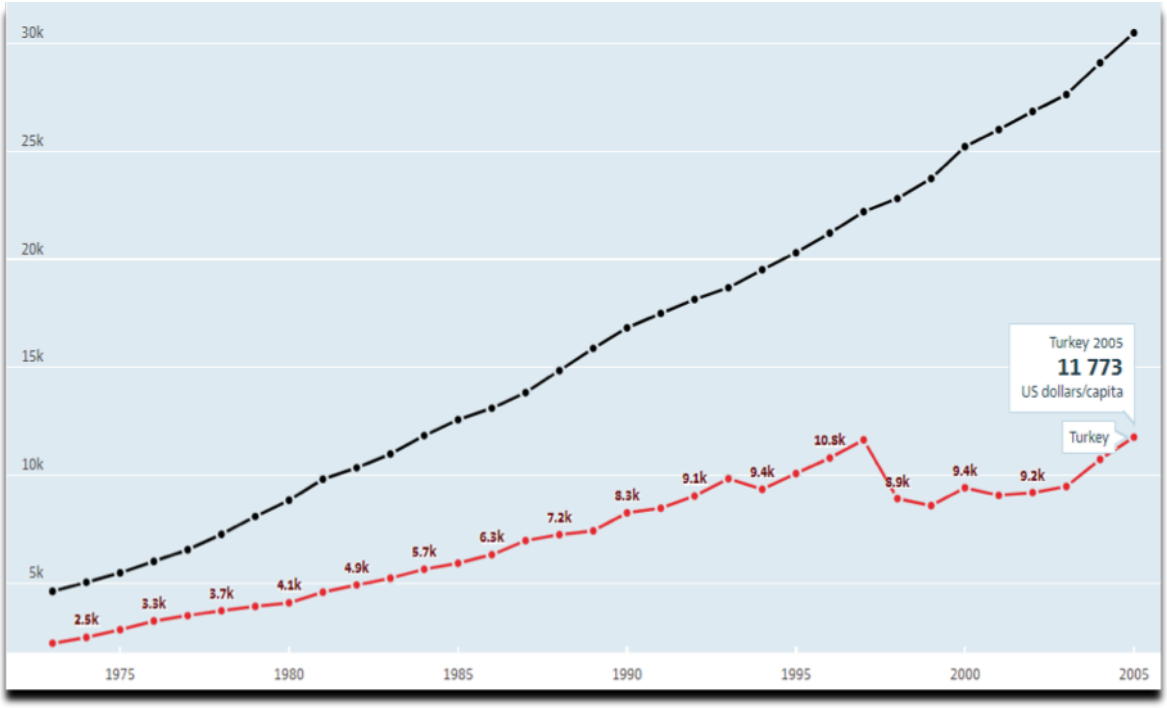
In 1973, the program budged was adopted and the traditional budget system was repealed. The aim behind of this system change was to establish a link between the budget and the development plans and as a result to facilitate monitoring of objectives of the plans (BÜMKO, Türkiye'de Bütçeleme).

Graphic 6. Consolidated Budget Income, Expense and Balance [1973-2005]



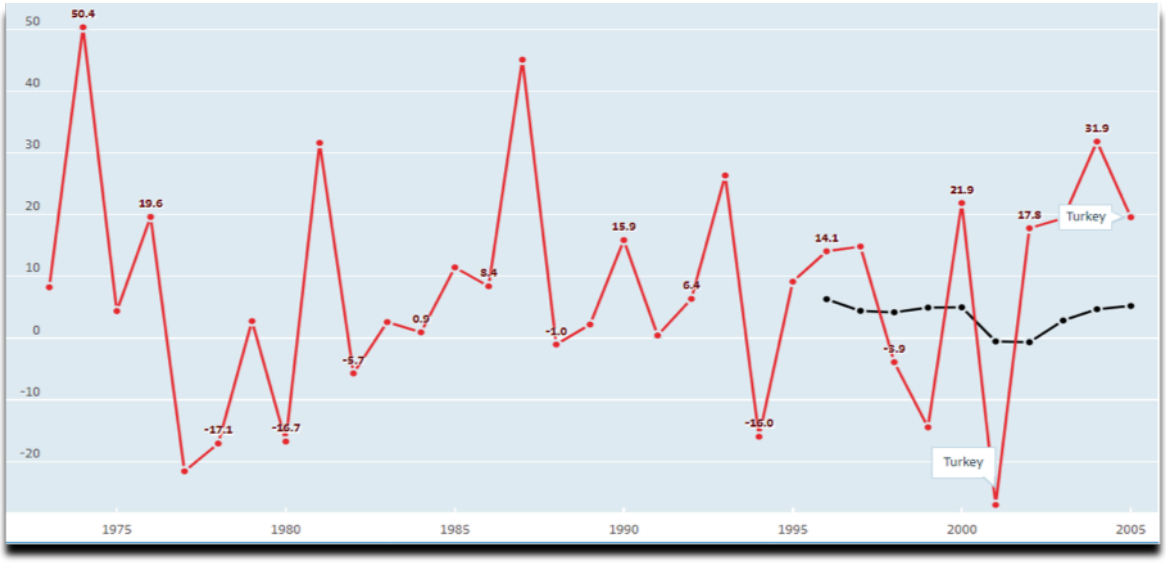
Source: BÜMKO Statistics, 2018.

Graphic 7. Turkey Gross Domestic Product [1973-2005] (US $ / Capita)



Source: OECD Data, 2016: https://data.oecd.org/gdp/gross-domestic-product-gdp.htm#indicator-chart
* Data were calculated using purchasing power parity.

Graphic 8. Turkey Annual Growth Rates (%) [1973-2005]



Source: OECD Data, 2016: Büyüme oranları, yatırım harcamaları kaleminden oluşturulmuştur. https://data.oecd.org/fr/gdp/investissement-fbcf.htm

During the implementation of the program budget period, the worst performance in terms of budget balance was recorded in 2003-2004. Performance based budget system, on the other hand, was put into effect in 2006. This point, which may imply a possible correlation, has already been noted.

2.4. Planning-Programming-Budgeting System (PPBS)

PPBS is a more comprehensive form of performance and program budget within modern budget systems and is based on coherence between planning and budgeting. Considering the planning, programming and budgeting stages, the stages must be in order and the causal link between them should be present.

Table 4. Advantages and Disadvantages of Planning-Programming Budgeting System

Planning-Programming Budgeting System	
Advantages	**Disadvantages**
Fully compliant with the democracy	**Not in full accord with the legislation**
Supports decision-making process of executives	It's hard to write what is the best alternative
Can be used in all decision processes	Budget prepation process is difficult to harmonize with law

Creates a sense of responsibility	**Easy to glimpse at, but hard to master**
Easy to set up source-result relationship	Depends greatly on good operation
Pragmatism (mission oriented)	Big and complex
It can help reducing casualties	Labor intensive
Flexibility in optimization	**Although it is theoretically perfect system, it is not true (Completely tied to Money)**
Great for forecasting	Has not yet have the chance to actually prove its full potential in huge scale conflicts

Source: Ursoiu, A.B., 2010:101-109 (Compiled by author.)

2.4.1. Planning-Programming and Budgeting System (PPBS): The Case of Turkey

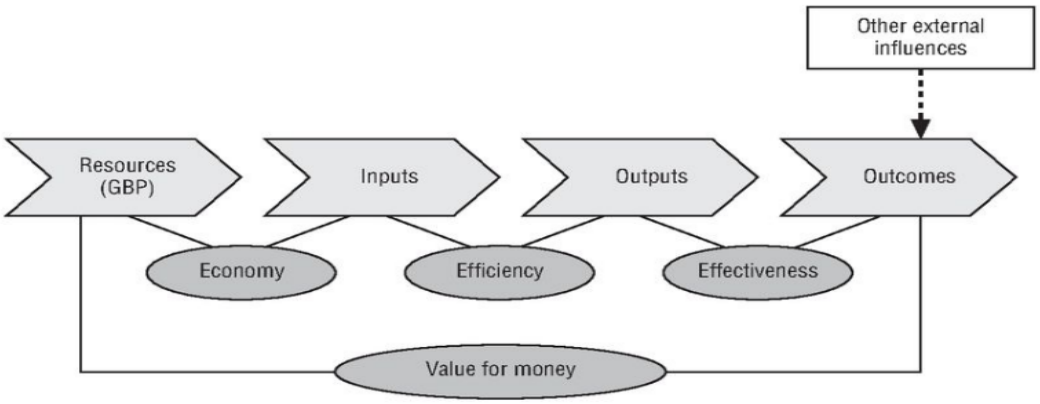
With adoption of Public Financial Management and Control Law (law number 5018) in 2003 it was envisaged to establish a more efficient, effective and economic use of public resources. Among the aims was also to establish a link between programs and the budget (BÜMKO, Budgeting in Turkey).

For realization of that aims beginning at the years 2017-2018 works for transition to a program and performance based budget system have started. This work is included in the New Economy Program prepared by the Ministry of Treasury and Finance for the period of 2019-2021.

3. Comparison of Budget Systems

In public administration, the use of resources refers to the stages of public input. When budget systems are taken into consideration, there are four performance criteria: cost, input, output, and outcome.

Figure 1. Performance in context



Source: Performance Budgeting in OECD Countries, 2007: 194

Each criterion forms the basis of four different budget systems.

Table 5. Comparison of Budget Systems

	Traditional Budget System	**Performance Budget System**	**Program Budget System**	**PPBS**
Performance in context	Inputs	Resources	Outputs	Outcomes
Use of Resources	Resource purchase expenditures	Resource purchase expenditures	Expenditure for optimal service output	Expenditures for social purposes
Purpose	Audit	Production	Governance	Audit- Production-Governance
Classification	Organic	Functional	Program	Functional
Period	Short term	Long term	Long term (3 Year Forecast)	Long term (5 Year Forecast)
Weightiness	Financial Balance	Efficiency	Efficiency-Effectiveness	Economy- Efficiency-Effectiveness
Application Area	Public Sector	Public - Private Sector	Public - Private Sector	Public Sector

Source: Compiled by author

4. Conclusion

The budget systems applied by the countries varries due to historical, economic, social, cultural and demographic differences. Similarly, the reasons behind a country's choose of a budget system, the scope, areas and principles of the budget are different. In this study, budget systems are dealt with under four headings and explained on the basis of the Turkish experience. According to the criteria of emergence date, budget systems are listed as the traditional budget system, performance budget system, program budget system and planning-programming budgeting system respectively. As the case of Turkey is conserned it seems that this ranking is not exactly followed.

When the data related to budget balance and budget system changes are evaluated together, there seems to be a remarkable parallelism between system changes and budget deficit. Similarly, there is an increase in extra-budgetary expenditures following the system changes. On the other hand, two major disadvantages caused by the increase in extra-budgetary expenditures should be noted. The first one is the fact that the expenditure control goes beyond the control of legislature which damages "budget rigt". The second is that the budget techniques remain out of practice.

There is no significant relationship between budget balance and macroeconomic variables.

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THE FACTORS INFLUENCING EXTERNAL AUDIT AND THE EFFECT OF EXTERNAL AUDIT ON FISCAL TRANSPARENCY

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Abstract

The study aims to analyze the factors that affect the external audit of the Supreme Audit Institution (SAI) and the effects of external audit on fiscal transparency. The effect of external audit on fiscal transparency is tested for 115 countries with Two-Stage Least Squares Method (2SLS). According to the analysis, it is determined that the level of democratization, gross domestic product (GDP) per capita, budget oversight of the legislature, audit diversity of Supreme Audit Institution and judicial model of Supreme Audit Institution have significant and positive effects on external audit. It is also determined that external audit has significant and positive effects on fiscal transparency.

Keywords: External Audit, Fiscal Transparency, Supreme Audit Institution, Two-Stage Least Squares Method (2SLS).

JEL Code: H60, H83.

1. Introduction

Fiscal transparency and accountability are the main components of democratic societies in terms of collection and expenditure of public revenues. Citizens have the power to decide on the collection of public revenues and the realization of public expenditures. Citizens now use these powers through legislatures in representative democracies(Yılmaz & Biçer, 2010: 206). As a requirement of the transfer of authority, the government is supposed to be open to the citizens, share information and account for the use and management of public resources. Today, governments set up effective control mechanisms to perform these functions, and in every democratic country there is a Supreme Audit Institution (SAI). The Supreme Audit Institution ensures independent audit of public accounts, as well as plans, programs, projects and other activities carried out by the government.In this study, the factors affecting the external audit performed by the Supreme Audit Institution and the effects of external audit on fiscal transparency have been analyzed.

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2. Literature Review

The Supreme Audit Institution is the national body responsible for auditing the government's income and expenses. Governments have many duties regulated in their legislation, but their main task is to audit the management of public resources and the quality and reliability of government fiscal data(Stapenhurst & Titsworth, 2001: 1). The audit carried out by the Supreme Audit Institutions is considered as external audit or supreme audit in the literature (Köse, 2007: 17). External audit is an external assessment conducted by an independent body outside the assessed institution (Posner & Shahan, 2014: 489). By taking the evaluations made into consideration, deputies and citizens keep the members of the government responsible in the fields of political elections, parliament negotiations and public debates and hold them liable for it(Bringselius, 2015: 150). In a country, the main element that ensures a transparent state administration is a reliable audit (Feyzioğlu, 1997: 7). In other words, fiscal transparency is the prerequisite for actualization of external audit (Morgner & Chêne, 2014: 3). It is of crucial importance for the government to be transparent for an effective external audit. Fiscal transparency increases as the Supreme Audit Institution implements an effective external audit. Thus, a bilateral relation exits between fiscal transparency and external audit and this situation has been defined as reverse causality in literature (Santiso, 2006, 2007a, 2007b).

3. Data and Variables

The main purpose of this study is to determine the socio-economic, institutional and political factors that affect the external audit conducted by the Supreme Audit Institution within the framework of an international comparison. Open Budget Survey of International Budget Partnership dated 2017 has been used in order to measure external audit and fiscal transparency. The survey covering 115 countries is the world's unique independent and comparative fiscal transparency measurement. As the survey data belonging 2017 were gathered in the year 2016, the data related to other variables belong to year 2016.

In the study, the factors affecting external audit have been grouped in two categories and independent variables have been classified in the scope of this grouping as well. According to this grouping, the elements affecting external audit are; (i) socio-economic factors and (ii) political and institutional factors. The socio-economic factors affecting external audit are; economic development level *(gdppc),* government debt *(debt),* government balance *(government.balance),* democratization level *(democracy).* The political and institutional factors include the variables such as legislative budget oversight *(leg.oversight),* judicial model of Supreme Audit Institution *(judicial.SAI)* and audit diversity *(audit.diversity).*

On Table 1, calculation methods of dependent and independent variables and explanations related to the data sources take place.

Table 1. Explanatory Information Regarding Variables

Variable	Explanation	Calculation Method	Source
Dependent Variables			
external.audit	External Audit	$external.audit = \sum_{i=1}^{6} (external.audit_i)\ /6$	It was compiled by us using the 2017 Open Budget Survey Data.
fiscal.transparency	Fiscal Transparency	OBI: 0: less or zero information; 100: detailed information	International Budget Partnership (IBP)
Independent Variables: Institutional and Political Factors			
common.law	Common Law	1: Common Law 0: Civil Law	Central Intelligence Agency (CIA) database
leg.oversight	legislative budget oversight	$leg.oversight = \sum_{i=1}^{12} (leg.oversight_i)\ /12$	It was compiled by us using the 2017 Open Budget Survey Data.
political.competition	Political Competition	Number of seats held by the ruling party in the legislature (% of the total number of seats)	Database of Political Institution (WB)
presidential	Type of Government System	1: Presidential system 0: Parliamentary system	Database of Political Institution (WB)
audit.diversity	The number of audit types of SAI	0: Weak Audit, 3: Strong Audit	It was compiled by us using the 2017 Open Budget Survey Data.
judicial.SAI	Countries with judicial model of supreme audit institution	1: judicial model of supreme audit institution 0: others	INTOSAI Working Group on Value and Benefits of SAIs (WGVBS)
Independent Variables: Socio-Economic Factors			
gdppc	Economic Level	gross domestic product (GDP) per capita, (natural logarithm)	World Bank (WB)
democracy	Democratization Level	Policy 2 index: −10 strong autocracy; +10 strong democracy	Policy IV project database
debt	Government Debt	Government debt (the percentage of GDP)	International Monetary Fund (IMF)
government.balance	Government Balance	General government net lending/borrowing (the percentage of GDP)	International Monetary Fund (IMF)
press.freedom	Freedom of Press	0: no freedom of press, 100: full freedom of press	Freedom House

4. Econometric Model

The theoretical literature shows that there is an endogeneity problem between the external audit of Supreme Audit Institution and the fiscal transparency. In order to solve this problem, Two-

Stage Least Squares (2SLS) estimation method which considers the mutual relation among variables has been used precisely. So as to be able determine the external audit of Supreme Audit Institutions, equation (1.) has been used.

$$\begin{aligned} external.audit_i = {} & \alpha + \beta_1 debt_{1i} + \beta_2 democracy_{2i} + \beta_3 gdppc_{3i} \\ & + \beta_4 leg.oversight_{4i} + \beta_5 audit.diversity_{5i} \\ & + \beta_6 .judicial.SAI_{6i} + \beta_7 government.balance_{7i} + \varepsilon_i \end{aligned} \quad (1.)$$

In the model, index i (i=1,2,…,115) specifies the countries, α specifies the constant term, β_{ii} specifies the parameters to be estimated, and ε specifies the error term.

A second equation (2.) has been added in order to control the reverse causality caused by the endogeneity problem between external audit and fiscal transparency.

$$\begin{aligned} fiscal.transparency_i = {} & \alpha + \gamma_1 external.audit_{1i} + \gamma_2 press.freedom_{2i} \\ & + \gamma_3 government.balance_{3i} + \gamma_4 precidency_{4i} \\ & + \gamma_5 political.competition_{5i} + \gamma_6 gdppc_{6i} + \gamma_7 common.law_{7i} + \varepsilon_i \end{aligned} \quad (2.)$$

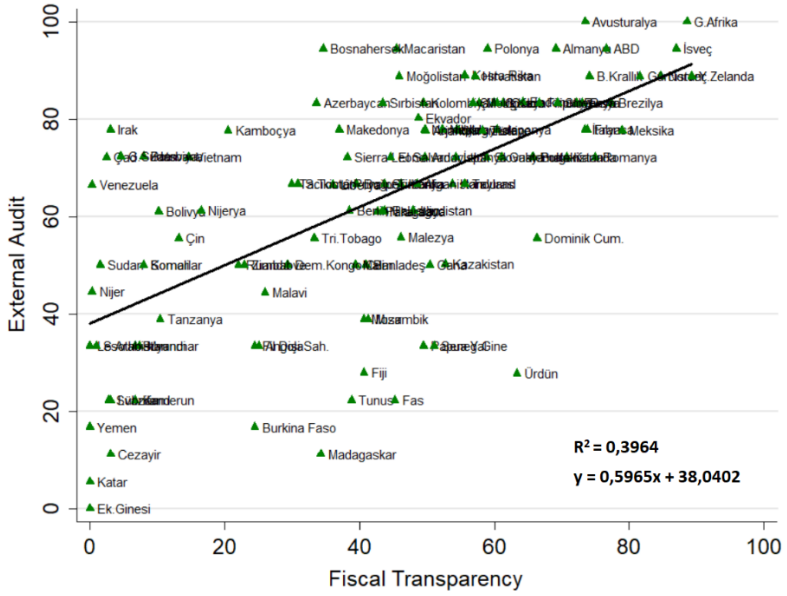
In the model, index i (i=1,2,…,115) specifies countries, α specifies the constant term, γ_{ji} specifies the parameters to be estimated, ε specifies the error term.

In the study, factors affecting the fiscal transparency have been determined considering the variables used by Alt & Lassen (2006) and Ríos et al. (2016). According to this, while the institutional and political factors affecting fiscal transparency are common law *(common.law),* political competition *(political.competition)* and presidential system *(presidential),* socio-economic factors are economic development level *(gdppc),* democratization level *(democracy),* the freedom of press *(press.freedom)* and government balance *(government.balance).* Moreover, external audit *(external.audit*) of Supreme Audit Institution which is an internal variable has been added to the model as an explanatory variable of fiscal transparency.

5. Empirical Results

In Graph 1, the relation between fiscal transparency and external audit carried out by Supreme Audit Institution has been displayed. According to the scatter diagram, there is a positive correlation between the two variables. This relation supports the literature (Santiso, 2006, 2007a, 2007b).

Graph 1. The Relation between External Audit and Fiscal Transparency



The regression results regarding institutional, political and socio-economic factors affecting the external audit of Supreme Audit Institution (Least Squares Method (OLS)) are shown on Table 2. The total number of observations in the regression is 107. The first column contains the variable names. The second column presents the regression results of the external audit and the White (χ^2) test. The changing variance problem encountered in the regression has been eliminated by the method of robust standard errors.

Table 2. Factors Affecting External Audit

	External Audit (OLS, robust)
Democracy	1.01*** (0.40)
Debt	-0.05 (0.05)
Government Balance	0.78 (0.57)
Gdppc	2.58* (1.47)
Legislative Oversight	0.41*** (0.95)
Audit Diversity	3.09** (1.63)
Judicial Model of SAI	7.01** (3.68)
Constant Term	14.12 (12.81)
R^2	0.57
Number of Observation (n)	107

White Test (χ^2)	8.81 (p=0.0030)

Least squares method (OLS) prediction results. Coefficients and standard errors (those are in parenthesis). Significance levels***p<0.01, **p<0.05, *p<0.1, the largest VIF value: 1.59.

It has been concluded that democracy *(democracy),*gross domestic product per capita *(gdppc)*, legislative budget oversight *(leg.oversight),* audit diversity carried out by Supreme Audit Institution *(audit.diversity)* and the country's having judicial model of supreme audit institution *(judicial.SAI)* have positive and significant effects on external audit. On the other hand, it has been seen that the government debt *(debt)* and the government balance *(budget.balance)* have no significant effect on the external audit.

Over-identification (Sargan) test has been used to identify whether there is an endogeneity problem between external audit and financial transparency; and then, since there is an endogeneity problem, Two-Stage Least Squares Method (2SLS) has been used to see the effects of external audit on fiscal transparency. The result of the analysis is shown on Table 3.

Table 3. Factors Affecting Fiscal Transparency

	Fiscal Transparency (2SLS)
External Audit	0.76*** (0.15)
Gdppc	2.29 (1.68)
Government Balance	0.83** (0.44)
Common Law	0.57 (4.02)
Political Competition	- 0.07 (0.10)
Freedom of Press	0.27** (0.11)
Presidential	6.88* (4.03)
Constant Term	-34.10** (14.34)
Number of Observation (n)	98
R^2	0.52
Over-identification (Sargan) test χ^2	0.83 (p = 0.6611)

Two-Stage Least Squares Method (2SLS) prediction results. Coefficients and standard errors (those are in parenthesis). Significance levels***p<0.01, **p<0.05, *p<0.1.

As a result of the analysis, it has been observed that external audit carried out by Supreme Audit Institution is one of the determiners of fiscal transparency as well as the other factors such as government balance *(government.balance),* the freedom of press *(press.freedom)* and the

presidential system *(presidential).* Supreme Audit Institution's conducting an effective external audit *(external.audit)* has a positive effect on fiscal transparency.

6. Conclusion

The study aims to analyze the factors affecting the external audit carried out by Supreme Audit Institution and the effects of external audit on fiscal transparency. For this purpose, the factors affecting the external audit in the sample of 115 countries have been determined by using the Two Stage Least Squares Method (2SLS); and then the effect of external audit on financial transparency was determined. Supreme Audit Institutions together with fiscal transparency are indispensable components of accountability mechanism in democratic parliamentary systems. Supreme Audit Institution carries out independent audits on the performance of executive body. An effective external audit affects fiscal transparency positively. The analysis made have demonstrated that democratization level, gross domestic product (GDP) per capita, legislative budget oversight, audit diversity of Supreme Audit Institution and judicial model of Supreme Audit Institution have positive effects on external audit.

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THE TRANSFORMATION IN PUBLIC FINANCE ADMINISTRATION

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Abstract

The political/administrative regime in Turkey has been radically transformed with the Constitutional Referendum held on 16 April, 2017. The new initiative nominalized a parliamentarian system which has been developed since 1876 with ups and downs, a constitutional legal order which came into being and developed with the Republic and the principle of the separation of powers brought by the 1961 Constitution.

The system foreseen by the new Constitution was even beyond this: extreme concentration of power within the execution itself. In the Presidential Government System, the role of ministers turned into ordinarily appointed civil servants and they have lost their ability to assemble regularly, make decisions, prepare draft laws and submit them to the Parliament as a council. The administrative mentality in Presidential Government System does not rely on the principle of merit, instead, the relations in Presidential Government System are characterized with clientelism, nepotism and ideological affinities.

The primary aim of this paper is to draw a framework for the transformation in public economic/public finance administration model and to do a critical analyze of the extent to which a monocratic model of administration can be a functional and to what extent it can remain outside of intra institutional conflicts. The main conclusion of this paper will be to state that Turkey's priority is nothing other than to change this third world presidency regime and its administrative structure.

Keywords: Presidential Government System (PGS), presidential decree (PD), statuary decree (SD), new administrative model, clientelism

Jel Codes:H, H11, H83, Z18

1. Introduction

Although Law No: 6771 which was presented to the referendum consisted only of 18 items, it touched upon the 79th bylaw of the constitution which in fact consists of a total of 177 items. (Aydın, 2017, 5). However, the more important transformation took place in the qualitative sense.

The constitutional amendment adopted in 2017 put another nail in the coffin of the principle of the separation of powers (checks and balances) introduced by the 1961 Constitution (and sustained by subsequent amendments adopted in the 1982 Constitution). The new initiative was designed to bury the parliamentarian system into history which has been progressed for 140 years and cease the advance of democratization which the 1961 Constitution substantially paved

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the way.[1] The relations between the Council of Ministers and the Government-Parliament which historically constituted the central element of the parliamentarian system were bypassed by removing the Council of Ministers and the institution of the Prime Minister's Office from the political system. A new public administration structure centered on presidency was built instead.

Although the legislature has been at the disposal of execution since before 2017, the new amendments put higher judicial bodies under the control of privileged executive power. A new Presidential administration model has been built which overthrew the hierarchy and distribution of responsibilities even within the executive power itself and removed the Council of Ministers and the Prime Minister's Office from decision making process and thus destroyed the equilibrium inside the executive power.

2. Constitutional and Legal Basis of the New Presidential System

2.1. Constitutional Basis

The constitution of the new regime 'approved' on 16 April, 2017 became effective in three stages. Some of its provisions became effective immediately upon the finalization of the referendum results, some (only 4 provisions) on 30 April, 2018 when the legal calendar of the Presidential election process became valid and lastly, the remaining numerous provisions became effective on 9 July, 2018 when the President took oath and began his official duty in the aftermath of the 24 June, 2018 elections. Since the adjustment laws in relation to the constitutional provisions enacted in the first stage had failed to pass on time, the process was accelerated following the amendments which became effective with all their provisions in the third stage.

The Constitution which can be referred as the "Constitution of the Second Republic" became effective with all of its provisions as of 9 July, 2018 on which the President took oath and assumed his duties. After this date, the new institutional structuring of the state gained an incredible speed.

2.2. Formation of a Republic of Decrees[2]

The Statutory Decree (SD) No: 703 which was published on 9 July, 2018 in the Official Gazette, legislated both the adjustment laws and some additional regulations at the same time. The SD No. 703 transformed the structures of councils/institutions and while some of the councils were changed in terms of their scope and title some of them were abolished (SD, No:703, Article 60) (for instance State Planning Organization). All kind of relations between institutions/councils with the Presidency or the ministries has been restructured (SD, No: 703, Article 41/b and its

[1] In the general preamble of Law No: 6771, the 1961 Constitution is clearly being targeted. For a further thought on this issue, see: Oyan, 2017.

[2] The Statutory Decrees (SD) and Presidential Decrees (PD) mentioned and analyzed here are as follows: SD, No: 700 (2018); SD, No: 703 (2018); PD, No: 1, 2, 3, 4 (2018) and PD, No: 13 (2018).

continuation). Above all the President became the sole determinant power to decide on the components of some councils/institutions such as the Economic and Social Council (SD, No:703, Article 109/b).

Successively four Presidential Decrees (PD) were published under the heading of "Presidential Decrees on the Presidential Organization" in the Official Gazette dated on 10 July, 2018, which formed the basis of the new organizational structure. In particular the first of these Decrees, which were numbered from 1 to 4, was the most basic one with its 539 articles.

Under the new PGS, 16 ministries have been decided to work under the direct command of the President. Furthermore, nine "board of politics" and four "Presidential Offices" were established and the President has gained the exclusive right to appoint their chairmen and members. In addition to that, 11 "institutions, councils and funds" have been subjected to the direct domination of the President. Thus, while the new government system steered towards over-centralization on the one hand, the decision making mechanism in public services was shared out and distributed to the ministries together with numerous councils, offices and directorates on the other hand. What is more, as there were other councils besides the aforementioned ones, there were councils which were active and affiliated to the ministries as well.

3. The New Administrative Model of Public Economy

3.1. Ministries, Councils, Offices, Directorates, etc.: A Chaotic Structure

There was a quite chaotic picture even in terms of public finance administration: In addition to the ministries related to economy, the structures directly associated with the Presidency needed to be taken into consideration now. The regulations regarding the ministries constituted the most predominant part (PD, No: 1, Articles 38-502). Eight of the 16 ministries were directly or indirectly related to the management of economy. These were:

The Ministry of Treasury and Finance,

Ministry of Trade,

Ministry of Industry and Progress,

Ministry of Energy and Natural Resources,

Ministry of Transportation and Infrastructure,

Ministry of Environment and Urbanization,

Ministry of Agriculture and Forestry,

Ministry of Labor, Social Services and Family.

Councils, offices and directorates functioning in economics which were under the direct control of the President instead of ministries were as follows:

Directorate of Strategy and Budget,

Council of Economic Policies,

Council of Social Policies,

Council of Health and Food Policies,

Council of Science, Technology and Innovation Policies,

Office of Finance,

Office of Investment,

Office of Digital Transformation...

The decision making processes on the management of economy seemed more branched out compared to their trial during Turgut Özal's period in the 1980's. (Oyan & Aydın, 1991; and Oyan, 2014). A chaotic structure, in which frequent conflicts related to decisions or conflicts took place, was being formed.

The first reason why this structure carried chaotic characteristics was that, a hierarchical order between ministries which were all associated with the presidency and councils/offices/directorates had not been foreseen. The early emergence of authority conflicts between ministries and councils which had great structural differences was almost inevitable. For instance, according to PD, No: 1, Article 21, the President was entitled as the chairman of all political councils, however these councils consisted of at least three members (yes, only three!) and one of the members served as deputy chairman.

Political councils are placed as if they were in higher ranks vis-à-vis ministries in the hierarchy. In fact, the deputy chairman of the councils is mostly acting as the representative of the President and his or her rank in hierarchy is, at least, accepted as equivalent to a minister. It would indeed be a kind of optimism to assume powerful ministerial organizations consisting of hundreds of experts who have been strongly committed to their departments and gained experience throughout in decades and also to assume ministers who strive hard to remain at the top of the hierarchy in accordance with the very nature of politics and its deep-seated manner and customs, to unconditionally yield to the bureaucratic councils composed of three people. If we were to consider the issue in the reverse manner, it would be meaningless to assume that a political council consisting of three members could have competed with the capacities of a ministerial organization.

As for the institutions and organizations linked to the President, their total number reaches to 11, eight of which are directorates, one is an institution, one is a general directorate and one is a fund. Most have their own special law and since they were taken over from the old structure with the exception of the "Ministry of Strategy and Budget" and "Ministry of Communication," these institutions and organizations which have preserved their unique mode of operation still have a common point: according to PD, No: 3, the President is determinant in the appointment of their presidents and high ranking executives. In the meantime, the Turkish Wealth Fund was linked to the Presidency, the President was entitled to manage the fund and the Minister of Treasury and

Finance (the son-in-law of the President) was appointed by the President as the acting chair of the fund. This case provides other clues about the personal aspect of this government model.

On the other hand, the Ministry of Treasury and Finance, which has been organized almost as a "primus inter pares" in terms of scope of duties and authorities, embodies certain councils within its body. The New Economic Program (NEP) which was announced on 20 September, 2018 and identical to the Medium Term Program (but contains anti-crisis precautions as well) defined councils of the new economy within the body of this ministry as follows:

- Public Finance Transformation and Change Office (TCO): Its duty is to program the transformation of savings and incomes;
- Turkish Financial Services Committee: Its duty is to regulate and inspect financial services;
- Financial Stability and Progress Committee (FSPC): Its duty is to maintain financial security and stability.

Apparently, the Ministry was forming new offices and councils (under the counsel of McKinsey) to put into shape the disorderly public finance administration structure! TCO was partially taking over the authority of ministries, councils, offices and directorates affiliated with the Presidency, because it would be serving as a monitoring, guiding, supervising and reporting unit for financial policies as well.

The inflated number of councils was not limited with these. Numerous councils from the previous period affiliated with the President, whose members as a whole or in majority would now be appointed by the President, still existed (SD, No: 703, Articles 135, 149, 162-171).

3.2. Conflict/Disagreement Areas in the New Government System

The decision making processes in relation only to finance administration seemed even more branched out compared to the past. In addition to that, the Central Bank of the Republic of Turkey which was a part of the previous structure and the Directorate of Privatization Administration which was reorganized with PD, No: 4 and similar directorates together with old or new organizational structures affiliated to the ministries were to be taken into consideration.

To have an initial idea about the strange "hierarchical" relationships among the newly formed structures, let us take a look at the "Coordination Meetings" which regulated the Political Councils (PD, No:1, Article 32/1): "The related ministers can organize coordination meetings with the senior administrators of institutions and organizations with the attendance of the related political council's acting president, with the purpose of ensuring coordination pertaining to the duties and activities in common areas. The guidelines determined at these meetings are presented to the President." And PD: 1, Article 32/2: "The President or the acting president of the political council appointed by the President or the minister presides over the coordination meetings." Also PD: 1, Article 32/3: "All activities and procedures related to the coordination meetings are carried out by the related political council."

As for the duties and authorities of the offices, it is stated in the 7th paragraph of Article 528 titled "Responsibility and Coordination" of PD, No: 1 that: "The Office is in charge of and responsible for coordinating all institutions and organizations in terms of issues related to its area of duty and for ensuring coordination and holding the required meetings and other organizations." Whether the "political council" or the "office" will take precedence about holding the coordination meeting have been left to the director's and his or her administrators' skill of reaching the President!

In fact, it can be seen in the 22nd Article of PD, No: 1 which regulates the "General duties and authorities of councils" that, the reiterated duty and authority areas between these and the presidential offices are much more in number than the ones indicated here. Of course, we are left with a difficult equation if we add on top of these, the Directorate of Strategy and Budget and the Directorate of Communication which are the two directorates newly formed within the scope of "affiliated institutions and councils" which can be intermixed with the offices and political councils.

We should also add that a powerful administrative structuring and a wide range of duties and authorities have been foreseen for the "Strategy and Budget Directorate" which is one of the new directorates (PD, No: 13). In fact, there are five general directorates, one department, two consultancies and a private secretariat among the service units of this directorate and somehow it was formed as if it was a combination of a mini Ministry of Treasury and Finance and the old State Planning Organization. This "Directorate," which was given the task of preparing jointly with the Ministry of Treasury and Finance the medium term program, the medium term financial plan, the Presidential annual plan, the sectoral plan and programs (PD, No: 13, Article 2/a) and the central administration budgetary law proposal draft (PD, No: 13, Article 2/h). Thus the Directorate would need a great bureaucratic organization in parallel to the ministry within its body to be able to achieve all these great tasks. However, since the Directorate has not been able to complete these tasks, it inevitably transferred its areas of duty to the Ministry of Treasury and Finance for the 2019 documents[1].

Thus, the idea of "politics not putting up with gaps" was valid for bureaucracy as well. The delays -in the appointment of the administrators of the councils and offices formed within the scope of the Presidency or the laxity in the formation of the organizations which remained too slow compared to the issuing of the Decrees gave the first signs of the gaps. On the other hand, the coming of the fore of politic affinities/favoring kith and kin in the appointment process rather than merit made the bureaucratic shield of the President (wished to surround himself) quite fragile. If you did not have a plan to completely overthrow the state, it could not be expected for "bureaucratic oligarchy" which the party member President obsessively attributed to the ministries (it is very likely that this reflected the outpouring of fears), to remain non-functional in against to the sloppy formed political councils and offices.

[1] Detailed expert views on the 2019 documents (budget, Medium Term Program, Medium Term Financial Plan and others) can be followed from the articles of Konukman (2018) who has been focusing on this area since the middle of 2018 which are published in BirGün Newspaper.

Finally, it may spring to mind that the problems can easily be solved by taking into consideration that the final decision authority in the case of decision making conflicts is a single man shining like the sun on top of the government plan. It can even be considered that this chaotic decision making structure has been especially planned to emphasize the indispensable role of this one man and to remind the capitalist class members of this role.[1] The result does not change; there still remains a designed governmental organization plan which would always be open to the new arm-wrestling matches of politics and inner-bureaucracy.

3.3. PGS Paves the Way to a Monolithic Administrative Tyranny

The President's appetite for governing and appointing is not limited with the abovementioned councils, institutions, organizations and offices. According to the 9th paragraph of Article 104 of the Constitution, the president, "He/she shall appoint and dismiss the high ranking executives, and shall regulate the procedure and principles governing the appointment thereof by presidential decree." These decrees are PD, No: 2 and PD, No:3 dated 10 July, 2018.

It can be seen that the scope of the "high ranking executives" in PD, No: 3 is quite extensive. The length of the lists in the attached tables (I) and (II) reveal this situation. In table (I), there is a total of 75 positions, however only 45 of these is related to singular appointments and 30 are related to multiple appointments. The term singular appointment refers mainly to the appointment of presidents/heads/directors. Multiple appointments refer to positions which concern more than one person, such as presidents, acting presidents, members, governors, ambassadors, permanent representatives/delegates, rectors and presidents of inspection boards of ministries. Thus, it was made possible for the President to directly appoint high ranking executives to hundreds of positions. What is more, the assignments of a much larger group consisting of the highest ranking administrator positions indicated in Table (II) can only be done with the approval of the President.

Other than these, public banks, public economic enterprises (SD, No: 703, Articles 132 and 133), Directorate of Privatization Administration (PD, No: 4), administrative boards, councils and committees (PD, No: 1, Articles 521-523), Savings Deposit Insurance Fund in which the president and all of its members are appointed by the President (PD, No: 3, Article 2/2, Table I) and certain institutions/boards linked to ministries and other public establishments should be listed as well. Without doubt, there are more important ones: Many members of the Higher Judicial Bodies are determined by the President. As mentioned earlier, the same situation is valid for all of the university rectors now. Likewise, according to PD, No: 3, Article 9, the provision states that "Promotions to higher ranks and appointments for generalship and admiralty are done by the President."

[1] While it could be assumed that the structuring of the new government and the appointment of the Son-in-law Minister to the top of the administration of economy would greatly please a small part of the capitalist group, it at the same time might disquiet those who had more distant relations with the government or those who found it safer to reach the political arena from multiple channels for their own interests. However, when the known adaptation speed of the capital is taken into consideration, it would not be surprising for the gap to close rapidly.

The established Presidential government structure resembles an organigram plan with a single center and limitless number of branches. There does not seem to be any institutions or organizations which the President does not interfere with in terms of their formation and decision making process.

Perhaps what is more important is that, the employee personal and retirement rights of "high ranking executives" such as wage and working hours being determined by the President arbitrarily, can change depending on the position or the person (PD, No: 3, Articles 5 and 6).[1] The assignments of former politicians to high ranking positions in public establishments indicate that these arbitrary decisions are necessary to ensure the political loyalty of the high ranking executives to the President. Turkey is rapidly joining to the ranks of the autocratic third world countries in respect of his administrative system.

4. Conclusion

The administrative mentality in PGS does not rely on the principle of merit, instead, the relations in PGS system are characterized with clientelism, nepotism, fellow-townsmenship, all ways of favoritism including kinship and identity relationships and ideological affinities. In concomitant with that, denunciation, defamation and discretization are also being conducted in order to take over as high ranking positions or to eliminate other nominees. Healthy organizational structures and functions derived from this spoiled structure which totally excludes the principle of merit can only depend on chance from now on.

The administrative structure of PGS, corresponds to an over centralized and disorganized type of structure and it manages as if it was trying to carry out "divide" and "rule" understanding in real politics. There are limitations in terms of putting this structure into shape in the future with certain legal interventions; this path in the existing constitutional order is blocked. What is more, as new regulations aiming at disciplining local administrations even more and placing them under the administrative tyranny of a partisan President leading the ruling party, it does not seem possible for this public administration model "to be corrected" in the legal platform. Turkey's priority is nothing other than to change this dictatorial regime or this "third world countries presidency regime" (Tunaya, 1980) and its administrative structure, PGS, in a radical manner; this can only be possible with a brand new constitution.

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[1] For a more detailed article on these issues, see: Oyan, 2019, pp.105-125.

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DEBT TARGETS AND FISCAL RULES PRACTICES ON PUBLIC DEBT FOR TURKEY

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Abstract

Debt targets act as an anchor of fiscal policies and ensure the sustainability of fiscal policy, provide a sufficient policy room for the economic stabilization policies in order to challenge adverse shocks. Prudent debt targets decrease the risk premia and cost of the active fiscal policies by ensuring the environment of confidence which the markets need. Prudent debt targets are set according to the economic situation of countries and in the frame of fiscal rules. For the purpose of obtaining results in compliance with these targets, fiscal rules have two main objectives. The first objective is contributing fiscal discipline and the second one is enabling the stabilization policies. However, achieving these targets is not only subject to debt-related fiscal rules. Expenditures revenues related to fiscal rules have to be used in harmony with the debt related fiscal rules.

In our study, we are going to try to ask these questions; what are the prudent debt targets for the short-mid and long terms, how to design fiscal rules and general fiscal framework to survive economic fluctuations. These questions will be tried to answer in the frame of the public debt performance and traditional fiscal policies of Turkey. In this study, a set of policy offers will be tried to developed to provide a functional role for the living through Turkey from the current economic fluctuation with the independent economic stabilization policies.

Keywords: Debt Target, Fiscal Rule, Debt Ceiling, Debt Tolerance, Prudent Debt Target, Fiscal Policy
JEL Code: F34, F37, H6

1. Introduction

It is possible to divide the concepts of restrictions to the governments related public borrowing as; the ones that determined by the economic indicators in the nature of the economy and the ones that are human-made restrictions by the legislative way. In this case, there may be economic sanctions of crossing the line of the restrictions determined by the economic indicators. In contrast, the restrictions brought by the legislation may be detected by the control mechanism in the states and impose sanctions with the hand of judicial mechanism or with the systems which occurred by the governments. The more strict mechanisms bring less frequency of limit excess. If these mechanisms are advisory or give notice of the situation, the frequency of limit excess may increase.

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In this study, among the mentioned restrictions; debt limit, debt target and debt ceiling concepts will be examined, and the situation of Turkey in terms of public debt management will be handled in the light of these concepts.

The research questions generated by this study, may be handled by the empirical analysis methods in the next studies. It is believed that this study will be beneficial for other researchers to study borrowing issues with the help of these restrictive concepts.

2. Public Debt Management and Public Debts as a Tool of Fiscal Policy

The government borrowing beyond all economic debates, stands in front of us as a social choice. A public authority, while finding the financial resources needed to the production of public goods and services, is obliged to choose one of those; using resources collected as tax revenues or using resources obtained from borrowing. This choice determines that if the price of the public goods and services paid by their users or the next generations of their users.

In his two different papers, Robert J. Barro (1974, 1979), explains Ricardian Equivalence Theory as a systematic way. Barro asserts that, the borrowing of the government instead of collecting taxes, will be noticed by the rational individuals and then rational individuals start to save money to make easier to pay the higher taxes by their next generations and at the end, there will be no different economic results of making a choice between collecting taxes and borrowing.

However, in the cases which have deviations from the assumptions of Barro, in other words in an economy which has no altruist individuals, there will be different economic effects of the results of the public debts and the taxes. In fact, there are studies give exact opposite results with Barro in the literature of behavioral economics. In an experimental study, that was shown, in the cases of that is possible to transfer the tax load to the next generations, participants have demanded more public goods and services. In the opposite case which they can not transfer the tax load, participants have demanded less public goods and services (Fochmann vd., 2018).

When it comes to this kind of choice, more than one variable as economic, social and politic, affects the decision of the public authority. Once we accept that the borrowing is not a choice but a necessity in an economy which is externally open and desires remain competitive in terms of growth, we can start to talk about how borrowing policies that the governments should apply.

The public debt management takes the realization of borrowing as the zero points and covers the borrowing strategies before borrowing as well as the debt services after the borrowing. Ideally it is foreseen that the government should borrow from various resources with the low costs and with the longest term possible. Of course the costs and maturities of debts have related the confidence between the lender and borrower about the service of the debt. The borrower countries cannot always apply the lenders under the perfect circumstances so that is not always possible to borrow with the lowest costs and long terms. The debts with short terms and high costs, which are not well planned and regulated within the particular strategic forecasts may be connected with other external shocks and may cause debt crisis.

The 2011 European Debt Crisis can be shown as an example from the near past for the experienced debt crisis. One of the basic questions of our study; “What should be the prudent

debt target?" came under the light at that point. How the member states of the European Union, has maintained high debt levels despite the written fiscal rule of Maastricht Criteria which demand the Public Debt / GDP ratio under 60% and invited the crisis into Europe? This may be the subject of a different study.

Another decision-making process which government should conduct, is choosing the internal debt or external debt resources. This preference generates different results in the countries' economies, so to make the right choice, economic circumstances must be evaluated widely. For instance, if there is a liquidity shortage in the country, borrowing from internal resources may cause a recession. That is why borrowing is a fiscal policy tool at the same time. In the inflationist times, internal debts run as a stabilizer by reducing pressure on the price levels and create an upright effect for the economic growth in the future by increasing internal savings.

In this point, a debt ceiling or a prudent debt target comes in front of us. Because keeping the public borrowing as a fiscal policy tool is dependent on keeping a "fiscal space" which allows using public borrowing as a stabilizer.

3. The Fiscal Rules Related Public Debts, Prudent Debt Targets and Other Restrictions

First of all we need to specify that the debt ceiling applications have a history for almost a hundred years. Periodically, there have been times which these applications conducted strictly or left completely. However, debt ceiling application is not a concept which there is a consensus on it in the public economics literature and there are many doubts about its efficiency.

The first debt ceiling crisis in history was experienced in the United States in 1953. The United States faced the excessing risk about the debt ceiling. Against this risk, the administration of that period had taken some measurements as reducing expenditures and gold monetization but eventually they had to increase the debt ceiling (Garbade, 2016: 1).

The studies about the debt ceiling have been added to agendas after the 2011 European Debt Crisis which showed that in the countries which have high levels of public debt, the real or financial shocks may lower the credibility and cause the risk of nonredemption of debts. These primary results may drive the economies into high-interest rates cycle, credit fragility and recession (Guerson ve Meline, 2011: 4).

The OECD, published a report (OECD, 2015) as a guide about how to use the fiscal rules to set applicable prudent debt targets. According to this report, there has to be two main aim of the fiscal rules. The first one is providing fiscal discipline. The second one is enabling the stabilizing policies. Countries need to consider the mainframe of fiscal rules which are not excessively restrictive and subsequently need to set an implementable prudent debt target.

The prudent debt targets should consider the macroeconomic shocks which may affect the development of public debts. In order to minimize the risk of excessing the target which may reduce the credibility of a country, the future position of public deficits should be carefully examined. For the purpose of an accurate target setting, the progress of the public debts with the assistance of economic models (Fall vd., 2015).

According to the results of a study on Turkey (Çetin, 2018: 55), the terms with increasing public debts are followed by poor macroeconomic performance. When the prudent debt target regime is applied, in the first phase, the fiscal discipline improves by the restriction of the borrowing and in the following terms, debt and tax load decreases and the taxes with the diversion effects may be reduced. Increasing fiscal discipline decreases the inflation rate, output deficits and expenditure deficits, and has an expanding effect in the total output performance.

3.1. Prudent Debt Targets

We can define the prudent debt targets as the borrowing level which has to be applied in order to maximize economic growth, increasing the efficiency of the fiscal policies and increase the radius of action of the governments.

In the OECD member developing countries as Turkey, this target is calculated as 60%, due to unstable structures and openness to the external shocks, such kind of countries need to ideally set the prudent debt targets between 30% and 50%.

We can count the aims of prudent debt targets as; preventing unlimited borrowing of the public authority, providing a confident environment, protecting the fiscal space, lowering the costs of risk premiums and fiscal policies.

3.2. Debt Limits

The debt limit expresses the level of maximum debt level which the government can not exceed. The debt limit cannot be determined by political or economic decision-making mechanisms. The main indicators of an economy; growth rates and interest rates together determine the debt limit. The sanctions are economic too. Liquidity crunch, crowding the governments out of the monetary markets, “fiscal fatigue” may occur as a result of excessing the debt limit.

According to the studies on the OECD member countries, this limit is calculated as twice as GDP. This is significant that the debt limit is not an indicator for the prudent debt targets to be set in a country.

3.3. Debt Ceiling

We may define the concept of debt ceiling as “the largest value of public debt that does not jeopardize long-run fiscal sustainability” (Lima et. al, 2005). But in some practices, the debt ceilings are applied as strict rules which governments should not exceed with soft applications as Turkey or more solid rules as United States.

For Turkey, the debt ceiling is set by the part of the law number 4749 as “debt, loan and guarantee limits”. According to the law, in a fiscal year, by considering development, stability, confidence in markets, macroeconomic balances and fiscal sustainability, a net borrowing can be made equal as the difference between estimated incomes and the starting allowances stated in the budget law.

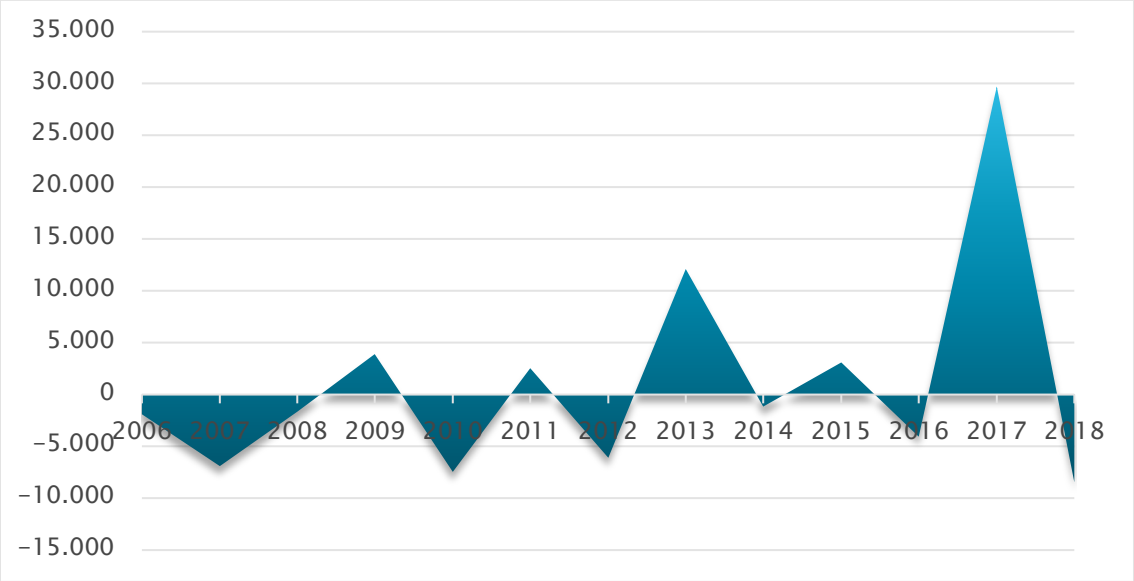
In the same law, there is an option to increase the debt limit for 5% in the first step and a 5% more in the second step but the second one is possible with the decision of the presidency.

This application has started in 2003 and successfully applied until the Global Crisis' affect the year 2009. After 2009, the most important deviation has seen in 2017 as twice of the debt ceiling.

3.4. Evaluating Turkey in Terms of Public Debt Restrictions

There are several restriction related to public debt on the governments in Turkey. In the terms of economic fluctuations we can observe that the limits or ceilings are exceeded and there are no serious sanctions against the responsibles of the public debt management. In the graphich 1, we can see the deviations from the debt ceiling which indicated in the law number 4749. Most of the deviations are compatible with the global fluctuations but especially in 2017 there is a great amount of deviation from the debt ceiling.

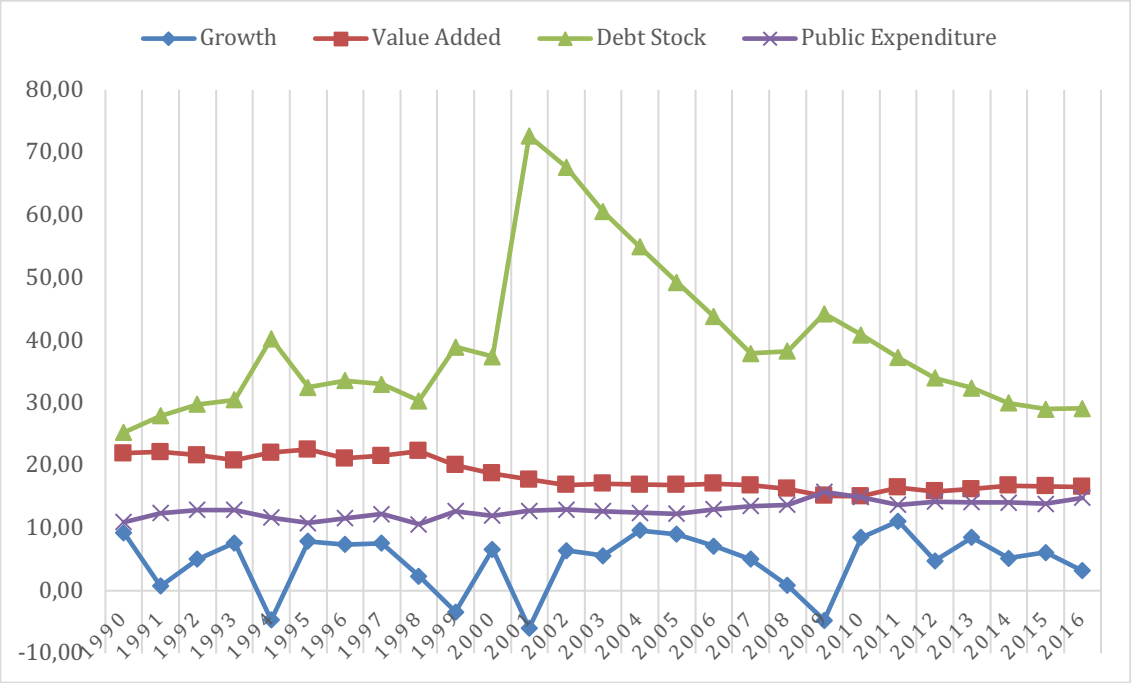
Graphich 1. Deviation From Debt Ceiling in the Law Number 4749 (Million TL)



Source: Republic of Turkey Ministry of Treasury and Finance Statistics

In the Graphic 2, we can see the growth rates, produced value added public debt stock and public expenditures as percentages of gross domestic product. We may analyse that the public expenditure rates do not seem as the reasons of deviation from the public debt limits. We may find a negative and significant relationship between growth rates and public debt stock in the further empirical studies according to Graphic 2.

Graphic 2. Growt Rates, Produced Value Added, Public Debt Stock and Public Expenditures (%)



Source: Derived from World Development Indicators and Republic of Turkey Ministry of Treasury and Finance Statistics.

Another interesting view is that Turkey can not produce increasing value added even it increase the growth rates. If the economic growth may be supported with the increasingly produced value added, Turkey would minimize or eliminate the deviations from debt limits. This issue also may be simulated in the further studies.

4. Conclusion

Different fiscal rules have different effects on the economy. Budget rules are not effective in the stability or flexibility but effective on the fiscal discipline as twice as the other fiscal rules. Spending rules have positive impacts on stability and flexibility but restrict the action space against risks. Income rules have effects only on the fiscal discipline and in contrast, have negative impacts stability, risks and flexibility.

The fiscal rules related to public debts restrict the results but have not any considerations on the reasons. The fiscal rules related to the budget balance restrict one of the reasons for the high level of debts but they do not restrict their own reasons.

As a policy recommendation, we suggest that the targets related production, value-added and growth in the programs and they should have economic and judicial sanctions.

The current fiscal rules' sanctions should be strengthened and their contributions to the fiscal discipline should increase.

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ESTIMATING FISCAL SPACE: AN EMPIRICAL STUDY ON TURKEY

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Abstract

In this study, Turkey's fiscal space is estimated by using Ostry et al. approach. It is aimed to contribute to literature by estimating fiscal space of a developing country for the first time with this approach. At first, fiscal reaction function and interest rate – growth rate differential are estimated for Turkey. Debt limit is determined by combining the reaction function and the differential. Thereafter, it is reached to Turkey's fiscal space subtracting current debt (in percent of GDP) from the debt limit. Accordingly, when all risks are ignored, Turkey's fiscal space is approximately 37% of GDP. The main reason of this relatively high ratio are realizing primary surpluses thanks to the fiscal discipline and providing high growth rates which reduce debt/GDP ratio for many years. But, given the risks arising from Turkey's structural economic characteristics, it is observed that Turkey's fiscal space decreased significantly. Accordingly, governments in Turkey should pay attention to contingent liabilities about treasury guarantees given in the direction of the PPP investment model and social security deficits. Because these factors negatively affect the fiscal space. In this respect, reducing the risk of exploitation of the fiscal space requires preserving continuity of high level of primary balance and some structural reforms, mainly related to the current account deficit.

Keywords: Fiscal reaction function, differential, debt limit, fiscal space, Ostry et al. approach, Turkey

JEL Code: E62, H62, H69

1. Introduction

In the study, it is aimed estimating Turkey' fiscal space through Ostry et al. approach. The study contributes to literature by estimating fiscal space of a developing country for the first time with this approach. At first, fiscal reaction function (the reaction of primary balance to public debt) is estimated for Turkey. The function is estimated through Ordinary Least Squares method with annual data from 1986 to 2018. Following, interest rate – growth rate differential is estimated by using long term government bond interest rates and growth rates in the last decade for Turkey. The diferantial equals to subtracting average economic growth rates from average bond intereset rates. Debt limit is determined by combining the reaction function and the differential. Thereafter, it is reached to Turkey's fiscal space subtracting current debt to GDP (in percent) from the debt limit.

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2. Literature Review

There are many methods of estimating fiscal space in the literature. The fiscal space of countries is estimated with these methods (Nerlich & Reuter, 2015: 4). Ostry et al. approach is one of them. Zandi et al. (2011); Bastos & Pineda (2013); Ghosh et al. [2013(a)]; Ghosh et al. [2013(b)]; Hajnovic & Zeman (2013); Kim (2015); Nerlich & Reuter (2015); and Adedeji et al. (2016) use this approach while estimating the fiscal space of countries. They Assoc.d also the fiscal space estimated through this approach with other concepts.

3. Data

Estimating the fiscal space through Ostry et al. approach requires estimating the fiscal reaction function. Primary balance to GDP (in percent), debt to GDP (in percent), output gap, government expenditure gap, trade openness, inflation [consumer price index (cpi)], age dependency, political stability and IMF arrangements are used while estimating Turkey's the fiscal reaction function from 1986 to 2018. Following, last ten years average of long term government bond interest rates and average of economic growth rates in the last decade are used while estimating interest rate – growth rate differential for Turkey. Also, inflation rates are used in order to convert nominal interest rates to real interest rates.

4. Methodology

According to Ostry et al. (2010), the fiscal reaction function should be estimated to be able to estimate the fiscal space of a country. Accordingly, fiscal reaction function of Turkey is estimated through Ordinary Least Squares method from 1986 to 2018. Variables in the function have time series features. Whether a time series variable is non-stationary (whether it has a unit root) should be tested through unit root tests. Because non-stationary series (it has a unit root) cause mistake results (Wooldridge, 2013: 636). Accordingly, time series variables in the function for Turkey are tested in this respect and some variables are edited according to test results. In addition to this, the model is tested in terms of some assumptions. Because these assumptions are necessary to be able to estimate the reaction function through Ordinary Least Squares method. The function is edited according to test results.

Following, interest rate – growth rate differential is estimated for Turkey. Accordingly, it is reached to the differential by subtracting average economic growth rates from average bond intereset rates in the last decade for Turkey. In addition to this, another diferantial is estimated through endogenous interest rates. Because the market interest rate doesn't take account of the rising default as debt approaches its limit.

Finally, it is reached to debt limit by combining the reaction function and the differential through various formulations derived from intertemporal budget constraint. Thereafter, Turkey's fiscal space is estimated by subtracting current debt to GDP (in percent) from the debt limit. Also, Turkey's fiscal space is estimated taking account the risky environment with endogenous interest rates. Accordingly, the fiscal space estimated with the risky environment is less than risk free.

5. Results

Firstly, fiscal reaction function for Turkey is estimated. Thus, μ could be determined;

pb = 0.0796*ld - 0.0032*ld^2 + 0.1310*og - 0.3438*geg - 0.1532*to - 0.1647*ad + 15.3848 (1)

μ = 0.1310*og - 0.3438*geg - 0.1532*to - 0.1647*ad + 15.3848 (2)

μ = 0.1310*4,06 - 0.3438*8,00 - 0.1532*28,43 - 0.1647*71,67 + 15.3848

μ = -2,9933

pb is primary balance to GDP (in percent); ld is lagged debt to GDP (in percent); og is output gap; geg is government expenditure gap; to is trade openness; ad is age dependency; and μ is all determinants of the primary balance other than lagged debt.

Secondly, two different interest rate – growth rate differential for Turkey is estimated. Both market interest rates and endogenous interest rates are used while estimating differential. For example;

differential (with market interest rates) => %0,85 - %5,39 = -%4,54 (3)

Lastly, the debt limit ($\overline{d}$) is determined by combining the fiscal reaction function and the interest rate – growth rate differential through the following formulation derived from intertemporal budget constraint;

$$\overline{d} = \frac{-0,0299}{-0,0454}\, x100 \quad (4)$$

Following, Turkey's fiscal space is estimated by subtracting current debt (2018) to GDP (in percent) (29%) from the debt limit (66%). Accordingly, Turkey's fiscal space is 37% if risks are ignored. Also, Turkey's fiscal space is estimated taking account the risky environment with endogenous interest rates. According to Table 1, Turkey's fiscal space is 10% if the probability of default (50%) is taken into account. And, Turkey has no fiscal space if the probability of default (65%) is taken into account.

Table 1: Turkey's Debt Limit and Fiscal Space (% of GDP)

Probability of Default	Interest Rates (Nominal)	Debt Limit	Current Debt (2018)	Fiscal Space
0% (risk free)	10,40%	66%	29%	37%
50%	21,44%	39%	29%	10%
65%	30,90%	15%	29%	0%

6. Conclusion

When all risks are ignored, Turkey's fiscal space is approximately 37% of GDP. The main reasons of this relatively high ratio are realizing primary surpluses in reaction to fiscal discipline and providing high growth rates which reduce debt/GDP ratio for many years. But, given the risks arising from Turkey's structural economic characteristics, it is observed that Turkey's fiscal space decreased significantly. For example, it is seen that if government's default probability increases by half, Turkey's all fiscal space is exhausted. Accordingly, governments in Turkey should pay attention to contingent liabilities about treasury guarantees given in the direction of the PPP investment model and high level of social security deficits. Because these factors negatively affect the fiscal space. In this respect, reducing the risk of exploitation of the fiscal space requires preserving continuity of high level of primary balance and some structural reforms, mainly related to the current account deficit.

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FACTORS AFFECTING THE USE OF FISCALLY PROTECTIONISM INSTRUMENTS USED IN INTERNATIONAL TRADE*

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Abstract

Depending on the developments in the world, the presence of the state in the economy also changes. In the economic welfare periods, minimal state view is adopted, while in the periods of contraction and crisis the interventionist state view is adopted. The international trade system is also affected from this. In the periods when the minimal state view was adopted, the free trade system was the dominant paradigm and in the periods when the interventionist state view was adopted, protectionism was the dominant paradigm. These developments are shaped by the nation-states, which are the hegemonic power of the period. Such countries act with the discourse of "insinde Keynes outside Smith", and on the one hand, do not hesitate to apply protectionist policies while making liberalization discourses around the world. Although the international trade system is based on the free trade system, protectionist policies are also implemented. In this context, protectionist instruments which allow World Trade Organization to use under certain constraints are used. These instruments can be grouped into two groups as protectionist instruments that are fiscally and non-fiscally qualified in terms of the effects they create in public finances. In this study, the factors affecting the use of fiscally protectionist instruments in international trade are analyzed on the basis of countries by negative binomial regression analysis. In this study, the data set of 16 countries covering the years 1995-2016 is used. While fiscally protection instruments are used for individual interests instead of macroeconomic targets by developed countries, they are predominantly used for macroeconomic targets by the low and middle-income countries.

Keywords: Free Trade, Protectionism, Fiscally Protectionism Instruments, Negative Binomial Regression Analysis

JEL Code: F13, O24, P45

1. Introduction

Over time, the legitimacy of state intervention in the market is discussed, depending on the conjunctural situation, and while market economy is prevailing policy in the periods of expansion and prosperity, interventionist policies is prevailing policy in the periods of contraction and crisis. When this situation is evaluated in terms of international trade, free trade system is applied in

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the periods of expansion and prosperity, and protectionism is applied in the periods of contraction and crisis. Therefore, although the international trade system is developed on the basis of free trade system, it is seen that the protectionist policies are applied in this system intensively.

The World Trade Organization (WTO) is responsible for establishing and implementing the rules and standards to be followed in international trade. The WTO states that countries should not resort to protectionist policies with a few exceptions in order to liberalize world trade. However, countries are able to implement protectionist policies in order to protect national security, economic development, protection of small industries, increase employment levels, improve trade volume, increase international competitiveness and prevent unfair competition. Protectionist policies can be implemented with the protection policy instruments permitted by the WTO. Although these instruments are classified in different ways in the literature, they can be classified as fiscally and non-fiscally instruments in terms of the effects of the countries on public finances in accordance with the purpose of the study.

In this study, it was aimed to determine the factors affecting the use of anti-dumping, countervailing duty and safeguard measures which are fiscally protectionism instruments of WTO members. In this study, negative binomial regression analysis constitutes by using the fiscally protectionism instruments which includes anti-dumping duties, countervailing duties and safeguard measures as dependent variable and macroeconomic variables such as growth rate, the share of imports in GDP, the ratio of imports to imports, exchange rate and unemployment rate as independent variables between the years of 1995-2016 for the 16 countries that use the most fiscally protectionism instruments in the world.

2. Market Economy and The International Trade System Relationship

Market economy is a volatility of voluntary exchanges, where the division of labor and private ownership exist, free prices, contracting and freedom of enterprise exist, the cost of acquiring information is low, competition in the market and decentralized decision-making is valid, private enterprise is based (Akalın, 2002: 90). The market economy is mainly aimed at cost minimization. In the market economy, where the cost minimization is aimed, the costs are minimized and the needs are met at the highest level. In this way, scarce resources are distributed to more efficient areas in the economy (Watts, 1992: 5-6).

The trading system in the world is mainly based on the concept of free trade. The free trade approach, which is one of the main arguments of the market economy, argues that the lack of intervention of states or the minimize the intervention of states in the trade between countries is essential. In the free trade system, where the market is not driven by state interventions, it is predicted that the inter-country division of labor will become more profitable, the potential national income of the countries will increase and a higher level of welfare will be achieved worldwide (Büyüktaşkın, 1997).

3. Free Trade System and Protectionism

Free trade system is a system where goods and services trade between countries is not blocked by states with any restrictions or interventions (Fouda, 2012: 351). Krugman (1983) and Bhagwati (2004) state that free trade is effective on employment increasing, poverty reduction, redistribution of income and economic growth. Solow (1956) also states that free trade will accelerate economic growth and development. Winters (2004) argues that minimizing barriers to free trade will increase overall factor productivity by increasing competition in imports.

Free trade policies based on the basic assumptions of the market economy are thus regarded as the most appropriate policies in the solution of the problems of development, stability and distribution. The countries' free trade policies are the best policies to increase world welfare; in that case, the obstacles to international trade are removed and every step towards free trade has an increasing effect on world welfare. In this respect, such policies are called “the first best policies”. One of the most important assumptions of free trade policies is that there is no difference between private and social costs. However, this assumption is not actually like this most of the time. Because, in real life, there is a difference between private cost and social cost due to market failures such as the existence of monopolies, externalities, government interventions and trade diversifying competition in export markets. In order to eliminate or minimize the difference between the private and the social costs, the intervention instruments put constitute “the second best policy” (Seyidoğlu, 2003: 214-215). The second best policy in international trade was developed by Meade and generalized by Lipsey and Lancaster (Robertson, 1972: 18).

In essence, the free trade system allows the protectionist policies to be implemented within their own limits in order to maintain their existence. Protectionism is defined as an attempt by governments to impose restrictions on the exchange of goods and services with other countries (Osabuohien vd., 2014: 14). The objectives of the protectionist policies are, in principle, national security, economic development, protection of small industries, increasing employment, keeping real wages highly, improving trade volume and increasing international competitiveness (Abboushi, 2010: 387).

Within the scope of foreign trade policy, there are a number of tools used in the scope of the protectionist policies implemented in order to limit foreign trade as well as liberalization. Protectionism instruments can be grouped into two groups as tariff and tariff-like protectionism instruments and non-tariff barriers by their qualifications (Vural, 1999: 183). However, protectionism instruments have a number of effects on the public finance of countries. When considered in terms of these effects, it is possible to divide the instruments of protectionist policy into two groups as fiscally protectionism instruments (Engin, 1992: 82-93) and non-fiscally protectionism policy instruments. In this study, fiscally protectionism instruments have been taken into consideration. These instruments include anti-dumping duties, countervailing duties and safeguards that require fiscal liability.

4. Literature Review

When the literature about the study is examined, it has been observed that there are no studies on the factors affecting the use of fiscally protectionism instruments in the studies that can be achieved, and the current studies have been focused mainly on antidumping applications. According to the results obtained, developed countries used the anti-dumping duties for reasons such as political pressures, country interests, political disagreement and obtaining hegemon power except for fair trade purpose (Finger vd., 1982; Knetter & Prusa, 2003; Aggarwal, 2004). Some studies have concluded that underdeveloped and developing countries use the anti-dumping duties for fair trade (Türkcan & Dişbudak, 2005; Bown, 2008).

5. Data Set, Method and Findings

In the analysis to be carried out within the scope of the study, 16 countries that use mostly fiscally protectionism instruments are considered. These countries are Argentina, Australia, Brazil, Canada, Chile, China, European Union, India, Indonesia, Japan, Korea, Mexico, Russia, South Africa, Turkey and the United States. The aim of this study is to determine the factors affecting the use of fiscally protectionism instruments of WTO members by negative binomial regression analysis. In the study, as the dependent variable, the number of measures taken by the countries within the scope of anti-dumping duties, countervailing duties and safeguard measures are taken into consideration. As an independent variable, growth rate, the share of imports in GDP, the ratio of exports to imports, exchange rate and unemployment rate were taken. The analysis of the study was performed using Stata 13 package program. In the literature, no studies have been found about the factors affecting the use of fiscally protectionism instruments, and the current studies have focused mainly on antidumping applications. From this point of view, determining the factors affecting the use of fiscally protectionism instruments in total constitute the originality of the study. With this dimension, it is thought that the study will make a significant contribution to the literature.

As a result of the analysis, when the factors affecting the use of fiscally protectionism instruments are examined, independent variables are not statistically significant in Chile, Korea and Mexico. Apart from these countries, when the factors affecting the use of the fiscally protectionism instruments of high income countries are examined, it is seen that they do not use fiscally protectionism instruments for fair reasons but they use it because of their interests, political pressure and disagreements with other countries. In low and middle-income countries, when the factors affecting the use of fiscally protectionism instruments are examined, it is observed that they act with macroeconomic concerns in order to complete their economic development.

6. Conclusion

It is observed that the fiscally protectionism instruments which are allowed to be used in order to prevent unfair competition within the scope of WTO do not serve this purpose both in the scope of the study and in the literature. These instruments, most commonly used by developed countries, are used in line with national interests without valid ground. In order to prevent this

situation and to make world trade more fair, the WTO should update the rules on the use of fiscally protectionism instruments and should not serve the interests of developed countries.

Developing countries should implement and develop protectionist strategies in order to adapt to rapidly developing conditions and to maintain competitive advantages against developed countries. Because the limited and necessary protectionism policy instrument do not disturb the functioning of the free trade system. On the contrary, this is an important issue in order to maintain the existence of free trade system. Therefore, limited and necessary protectionism policy instruments should be used fairly instead of protectionist practices aimed at disrupting the functioning of the market economy by causing unfair competition in international trade.

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PUBLIC LOSS IN THE ACTIONS AND ACTS OF TAXATION FROM THE VIEWPOINT PUBLIC FISCAL LAW

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Abstract

Basic assurance of taxpayers against fiscalist behaviours of officers responsible for tax transactions and inspections and member of commissions is tax jurisdictions. As a means protecting the taxpayer against such transactions of public officers cause some kind of unjust enrichment on behalf of taxpayer. Furthermore, the means of protecting public interest against unjust enrichment on behalf of tax payer is fiscal law which includes public expenditure law besides tax law. It can be expected that the taxpayers spend effort to obtain their rights under the motive of protecting their personal interests. Coming across such an effort is difficult in case of public interest violation. As a result of acting highly generous of officers responsible throughout the taxing process at times can reducing tax revenues and public resources. In case being reflected the defective will of public officers on administrative procedures and actions on public loss has been occured in the meaning in the Law no. 5018 titled Law of Public Fiscal Administration and Control. The decision procedure and action which cause the public loss whether a requirement of the task or not will be inquired within the frame of fiscal inspection law. If a loss matches up with the type defined in the Law no. 5018, an obligation of the indemnity will be occurred. In addition the sanctions of discipline and criminal law will be implemented.

Keywords: Public Loss, Taxation, Taxation Action, Public Fiscal Law, Fiscal Law, Tax Law.
JEL Code: K34, K39.

1. Introduction

Public loss concept can be defined in the broad sense as every kind of damage has been done disservice to the society. A relatively restricted definition can be given as the damage brought on the public property. The one most restricted and associated with the public expenditure law is taken part in the first paragraph of the item 71 of the Law no. 5018 titled Law of Public Financial and Control as “preventing an increase or causing a decrease in the public resource as a result of a decision, action or act that violates the legislation and that items from intention, fault or disregard of public officers”. At the same item some presumptions have taken place to be based on to be determined the public loss such as making payments in excess of the amount determined as the price of works, goods or services; making payments without receiving the goods or without having the work done or service provided; making excessive or groundless payments in the expenditure in the form of transfers; purchasing goods, works or services or to have them done for a price higher than their market price; no imposing, accuring or collecting

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the revenues of the administration in accordance with the legislation; making payments although not envisaged in the relevant legislation.

Taxation actions which are administrative acts express the actions assessment, notification accruement (precautionary accural) and collection. It is possible to take into account the case conciliation in this context.

In this paper, the reductions on tax assessments to be performed on the tax bases appreciated and defined by tax administration, accruement and collection stages; tax loss arising from the lack of appreciation of tax base and the reductions are not incompatible with the qualification and conciliation and principle of proportionality through the conciliation process (post-assessment and pre-assessment) will be discussed against the public loss provisions of the Law no. 5018.

2. Discretionary Power and Its Limits on Which Tax Administration Has on Appreciations and Definitions and The Other Actions Which Effects Tax Claim

Despite as a result of the legality principle, 'dependent power' has been adopted in the tax law, it is seen that a broad "discretionary power" has also given to the administration[1]. The situation the law orders to administration to make a decision is named "dependent power", on the contrary, if the administration has a freedom on acting, that is "discretionary power".

An example can be given, according to the article 112/5 of Tax Procedure Law, no. 213;

"If taxes have to be refunded in accordance with tax acts do not refund in three months beginning from the month in which have been completed all the information and documents by the taxpayer, an interest equals to the postponement interest rate in the Law No: 6183 from the end of three months period to the date of notification will be paid to the taxpayer with the tax has to be refunded."

In accordance with those imperative provisions, the tax administration do not have any discretionary power on to refund or not to refund to the taxpayer. Consequently, the power administration has here is a dependent power.

On the other hand, below example can be given for discretionary power. According to the article 17/1 of the Tax Procedure Law, no. 213.

"Persons who cannot fulfil tax duties in time because they are in a difficult situation are given a proper additional delay by Ministry of Finance as long as not to exceed the legal period, in case the legal period less than a month, as long as not to exceed a month.

To be given that delay;
1. Person who wants delay has to apply by a written request.
2. Reason is expressed in that written request has to be admittable.
3. Collection the tax has not been taken a risk when the delay has given."

The situation is different here. A discretionary power has given to the tax administration for the subjects the reliability of the excuse which is shown by the applicant and in case the delay has given, collecting tax would be under risk or not.

The constitutional basis of discretionary power of administration has been taken place in the Constitution article 125/4 is as below.

"Judicial power is limited to the review of the legality of administrative actions and acts, and in no case may it be used as a review of expediency. No judicial ruling shall be passed which restricts the exercise of the executive function in accordance with the forms and principle prescribed by tax, which has the equality of an administrative action and act, or which removes discretionary powers."

The provision which is taken place under the "types of administrative law suits and the borderline of the judicial powers" with title of article 2/2 of Administrative Jurisdiction Procedure Law no. 2577 line as;

"Judicial power is limited to the review of the legality of administrative actions and acts. The administrative courts cannot do the appropriateness establish judicial ruling shall be passed which restricts the exercise of the executive function in accordance with the forms and principles prescribed by law which has the quality of an administrative action and act, or which removes discretionary powers"

reflects above mentioned constitutional provision.

Being made appreciations and determinations of tax bases which are basis of extraordinary tax assessments properly to the subjective-individual conditions of tax payers; not being made appreciations and determinations of tax bases at higher levels than required are necessary to be obeyed the tax payers' rights. In case violating the tax payers' rights, although applying the administrative processes to remove those violations is possible the main authority is judicial authority to remove that violation.

Tax payer can display two alternative behaviors against opposite taxation acts. Firstly, tax payer cannot notice that the act causes a violation of right and suffers from an additional tax and/or penalty burden. Secondly, tax payer notices and attempt to remove the violation. First possible behavior will cause an unjust enrichment behalf public treasury. As a conclusion of the second behaviour, when removed unlawfulness of the act by nullity, the result of the first behavior will be removed partially or totally.

The subject has not been discussed enough in this context is appreciation and determination of tax bases remain lower levels than required of subjective individual status of tax payers and its consequences. Several provisions exist in the tax codes and many sources of tax law in order to be prevented this conclusion.

Those provisions can be encountered many places from assessment and penalty to conciliation; from tax payers' tasks and evaluation to the tax inspection private regulations are also encountered some places. For example, according to the article 76 under title line "loyalty to the declaration" in the Tax Procedure Law no. 213, the tax base, has been appreciated cannot be lower than tax payers' return in which has been already given in appreciation related with tax bases had been declared before by tax payers.

Public loss which emerges from the faulty wills of tax officers reflects on taxation actions and act, has been unbalanced the equilibrium personal interest-public interest in the unlawful way against the second one.

3. Going Over the Border in Using Power Against the Public

There are miscellaneous compensation mechanisms which tax payers can apply against negative conclusions of overusing of discretionary power and exceeding the border which drawn by law in the dependent power. Besides judicial way, administrative ways of which numbers have been increasing day by day can supply resolution to remove violations of rights.

Public opinion of taxation has much more knowledge about the conclusions of taxation actions and acts against tax payers' interest than against public treasury. In particular under the effect of being highly discussed tax payers' rights recently, the optimal equilibrium point of personal interest and public interest has been started to be discussed.

Tax payers' rights of course important. The tendency in the World is to be adopted tax payers' focused approach today. On the other hand, the reason of existence and functions of taxation should not to be forgotten. Therefore, transactions decreasing of tax and penalty bases of appreciation commissions, inspection officials and conciliation commissions during appreciation and determination of tax and penalty bases are necessary to be considered in the way of public focused approach from the viewpoint of principles and rules of the Public Expenditure Law.

Taxation is the main tool to be produced and supplied to the society of needed resources. Assessment and collection taxes completely in time have crucial importance for public and budget finance. Malfunctions, deficiencies and lags in levying taxes will inevitably cause problems to fulfil the public needs (Oktar, 2019: 321).

In this context, it should be discussed that a loss which requires indemnification arises or not while being used the dependent power and especially discretionary power whether public resources have been affected in negative way as a consequence of the administrative actions and acts.

4. Public Loss and Its Indemnification Issue

Actions and acts are made of related public officers should be examined according to the article 71 in which regulated the public loss of the law, in case the public treasury suffers a loss as a consequence of being used the dependent power faulty and unlawful and also the discretionary power arbitrary to be defined whether mentioned a public loss in the sense of the Law no. 5018 and can be claimed back from related, public officers.

It is clear that being made appreciations of the tax base less than required by the inspection officer and being reduced in tax penalty more than required by conciliation commission cause a decrease or obstacle an increase in public resource. Nevertheless, defining of this result indicates a public loss or not has been required a detailed examination[2].

Some subjective and objective circumstances have to be exist to be mentioned public loss.

Making decisions, actions and act which are violating the legislation as a result of faulty wills (intention fault tor disregard) of public officers.

Causing a decrease or obstacle an increase in public resource as a result of those decisions, actions or act[3].

In the article 71, some presumptions have taken place of public loss. One of those presumptions which has crucial importance for this paper is *"no imposing, accruing or collecting the revenues of the administration in accordance with the legislation, making payments although not envisaged in the relevant legislation".*

In accordance with those provisions, except committing fraudulent actions, presidents and members of appreciation commissions because of appreciation of tax base less than required; tax inspectors because of determining tax bases less than required and conciliation commissions because of over reductions in taxes and penalties more than required will be responsible to pay indemnification for public loss.

Appreciations and determinations of tax bases and reductions make by conciliation commissions must make by considering cases in the right way and using objective criteria. Appropriately usage of discretionary power of administration is the need of principle of equality when decisions, actions and acts which exceed the border of power cause loss of public resources, public loss will be emerged.

The public loss determined as a result of control, audit, examination, final sentence of trial shall be collected from the relevant persons together with its legal interest to be calculated according to the related legislation as of the date of the loss emerged.

The penalties stipulated herein will be imposed by the relevant top managers. Penalties shall be collected by deducting one fourth of all payments earned by the relevant persons including all kinds of salary, allowance, pay raise and compensation beginning from the month following imposition of the penalty and without requiring any further judgement (Law no. 5018, article 73).

The liability has not been remain limited with the Compensation Law. Due to the decisions, actions or acts that violates the legislation which have been created by faulty will some results in the sense of the Disciplinary Law and the Penal Law may be emerged.

5. Conclusion

Despite a discretionary power has given to administration for additional ex-officio, administrative assessment and collection acts and tax and penalty reductions made by conciliation commissions, beside principles of legality, equality and justice; the limit of this power in the public expenditure law are provisions on public loss of Public Financial Management and Control Law no. 5018.

In case, while appreciating and determining of tax bases and while being used discretionary power not to be considered the features of events and acting against the principle of proportionality, it is going to be implemented the provisions of public loss. The power cannot be used without limit and arbitrary, even if the limit of the power has not clearly been defined.

The needed research and examination must be completely done and achieving the real tax base amounts are obligatory at taxation act and pre-act. When considered the provision; no imposing, accruing or collecting the revenues of the administration in accordance with the legislation and making payments although not envisaged in the relevant legislation one of the determinants of the public loss and whether decreasing which is occurred of the reasons except the will of tax payer in the tax burden has been emerged from the faults of public officers, presidents and members of the conciliation commissions, a public loss in the sense of Law no. 5018 which has to be paid by responsible persons and furthermore, it has some other conclusions within the frame of the disciplinary and penal law.

Notes

1. See for the discretionary power of the public administration, Gerçek A. (2006). **The Discretionary Power of Administration in Turkish Tax Law**, Ankara, Yaklaşım and Üstün, Ü. S. (2007). **The Discretionary Power of Administration in Turkish Tax Law**, Ankara, Turhan.
2. See Taşkın, Y. & Oktar S. A. (2012). "Some Notes on Public Loss and Some Problems Encountered in the Higher Education Institutions", http://alomaliye.com/2012/09/17.

3. On the subject public loss can be referred these books: Şişman, G. (2017). **Public Loss from the Point of Tax Claim at the Court of Accounts Jurisdiction**, Ankara, Seçkin and Turguter, N. (2012). **Explanation of the Public Loss,** Ankara, Ankara University Press.
Public resource has been defined at the article 3/1-g of Law no. 5018 as, "*public revenues including those acquired through borrowing and to movable and immovables deposits receivables and rights and all kinds of valuables, that all belong to the public".*

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THE SCOPE OF THE LEGALITY PRINCIPLE OF TAXATION IN THE LIGHT OF TURKISH CONSTITUTIONAL COURT'S JUDGMENTS

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Abstract

In order to determine the scope of the legality principle of taxation which is regulated in Turkish Constitution, the criteria adopted by Turkish Constitutional Court ("TCC") are important. The aim of this study is to evaluate these criteria and observe the compliance of Turkish tax legislation with them. As a result of this examination, it is determined that the criteria were not fully settled and that the current tax legislation do not comply with them sufficiently. However, taxpayers should be able to foresee which rules are regulated by laws and which are regulated by other formal sources of tax law. In its recent judgments, the Court softened its strict supervision of formal dimension of the principle, which is "no tax without law". It can be considered that the case-law of European Court of Human Rights ("ECtHR") is effective on this approach. According to the case-law of ECtHR, the concept of "lawfulness" refers to the quality of the law in question.However, Article 73 of Turkish Constitution is the special provision in respect of tax law. Thus, the tax rules which are basically foreseeable by taxpayers are the rules which are regulated in the laws in both formal and material meanings.

Keywords: Legality Principle of Taxation, Foreseeability, Constitutional Principles, Taxpayer Rights

JEL Code: K34, K38

1. Introduction

Article 73 of Turkish Constitution only draws a frame for the constitutional principles of tax law, although it can be said that it is closer to "regulatory constitution" type since it has been prepared with casuistic method (Özbudun, 2018: 57-58).

This is natural because the content of the principles – unlike their purposes- are unclear to a certain degree. Constitutional principles are rather constitutive and protective (Saban, 2014: 57). A constitution which goes into too much detail may not comply with the changing needs (Özbudun, 2018: 58).

Although constitutional "principles" are the fundamental grounds of tax law, taxation process is conducted with the "rules" which are regulated by other formal sources of tax law. Taxpayers deal with administrative actions which arise from these rules. Therefore they should foresee these rules in detail.

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The pre-condition of the foreseeability is accessibility. This is very important with regards to taxpayers' legal security considering today's stubborn fact: "the inflation of norms" (Kaboğlu, 2002: 25).

In this regard, one should first determine the scope and limits of the legality principle of taxes.

As a beginning, these questions can be asked:

In order to comply with the legality principle of taxation, to what extent a detailed regulation expected from tax laws? Which matters must be regulated solely by law?

In this study, the criteria adopted in Turkish Constitutional Court's ("TCC") judgments on this topic and the compliance of current Turkish tax legislation with aforesaid criteria are reviewed.

2. The Criteria Adopted in Constitutional Court's Judgments with regards to the Scope of Legality Principle of Taxation

2.1. Main Elements of Tax

Third paragraph of Article 73 states that taxes, fees, duties and other such fiscal obligations shall be imposed, amended or revoked by law (In this article, the concept of "tax" will be referred to all these fiscal obligations unless indicated otherwise).

TCC states that it is not sufficient for the legislator to allow levying a tax only by stating the subject of it (TCC, Case no. 1986/20, 1987/9, 31.03.1987).

The answer to the question of which rules are to be regulated by law, the concept of "main elements" comes out in the TCC judgments. However, the meaning and scope of "main elements" have not been clarified in these judgments. Instead, some main elements have been counted by sampling.

There is no hesitation that some elements of tax are main elements. For example, the subject of the tax, the taxpayer, tax base, tax rate are undoubtedly main elements. On the other hand, while the method and period of payment of the tax have been counted among the main elements of tax (TCC Case no. 1996/49, 1996/46, 11.12.1996), in another judgment TCC stated that the tax law, which authorizes the Department of Finance to determine the method and place of payment, was not unconstitutional (TCC Case no. 2007/114, 2011/36, 10.02.2011).

In Turkish tax law doctrine, it is suggested that not only the main elements of the tax but also the duties and procedural issues arising from the tax should be regulated by law (Güneş, 2011:18; Kumrulu, 1979: 150). Thus, the assessment, notification, accrual, collection of the tax, valuation, tax duties, tax inspection, tax disputes and sanctions are accepted within the scope of the legality principle of taxes.

In some of its judgments, TCC stated that not all the main elements of the tax should be regulated in the same provision, in the same paragraph or even in the same law. (TCC Case no. 2016/150, 2017/179, 28.12.2017; TCC Case no. 2011/16, 2012/129, 27.09.2012). In my opinion, it should be

possible for the taxpayers to find all the main elements of a tax in the same law that regulates the relevant tax.

Another issue to be addressed is that the different tax rules on the same subject may cause contradiction and therefore lack the required foreseeability. In the current situation regarding whether the advertisement expenses for all kinds of alcohol and alcoholic beverages, tobacco and tobacco products can be deducted from income tax and corporate tax base; there are different regulations in Turkish tax legislation such as Income Tax Law, Corporate Tax Law, Law on the Prevention and Control of the Losses of Tobacco Products, and general communiques of the Ministry of Treasury and Finance. This created confusion in practice and caused conflicting judicial decisions (Gümüşkaya, 2018: 309-329).

As regards the tax liability of legal representatives, the regulations in two separate tax laws (Article 10 of the Tax Procedure Law and duplicate Article 35 of the Law no 6183 on the Procedure for the Collection of Public Receivables) also cause uncertainty in practice. In fact, TCC annulled the provision "*The provisions of the Tax Procedure Law no.213 on the liability of legal representatives do not remove the responsibility set out in this Article*", which is included in the last paragraph of duplicate Article 35 of Law no.6183, on the grounds that it caused uncertainty on which one of the two provisions is applicable (TCC Case no. 2014/144, K.2015/29, 19.03.2015).

In my opinion the uncertainty has not disappeared after the annulment. Because the regulations that are still in force are not complementary, they both regulate the basic conditions of legal representative's tax liability separately. This enables the tax administration to implement these regulations selectively, since it cannot be said that the special law-general law distinction is fully adopted in tax practice regarding this issue. Therefore, it is necessary to clarify the application criteria of these regulations.

2.2. Issues Related to Practice, Technique, Expertness and Details

TCC accepts that the authority can be given by law to the executive with regards to establish regulatory administrative acts on issues related to practice, technique, expertness and details (TCC Case no. 1996/49, 1996/46, 11.12.1996). Although it is not mentioned in the Constitution, it is accepted that the administration may issue anonymous regulatory acts to regulate the details of the law under different names such as circular, general communique. (Sevgili Gencay, 2014:401). However, no criterion has been introduced to allow for a precise distinction.

For instance, TCC ruled that the provision of Tax Procedure Law, which authorizes the Ministry of Treasury and Finance the right to issue new documents, is not contrary to principle of legality. It stated that adding a new document to the document order did not directly interfere with the tax base (TCC, Case no 1990/29, 1991/37, 15.10.1991).

In another judgment, abovementioned authority given to the Ministry has been determined as a measure to monitor the daily events and to arrange technical or detail issues (TCC, Case no 2009/5, 2011/31, 03.02.2011).

However, drawing up or receiving a new document for tax purposes is either a duty or a right of the taxpayer. Hence the authority to issue formal duties that affect the right to property of the taxpayer is an authority that should belong to the legislature.

In its other judgment, TCC hold that the provision in Article 94 of the Income Tax Law, which authorizes the Ministry of Treasury and Finance to hold the parties or intermediaries liable for the payment of taxes with regards to transactions subject to taxation, is not unconstitutional (TCC, Case no. 2014/183, 2015/122, 30.12.2015). In this judgment, TCC rejected the appeal by stating that the authority given to the Ministry was limited and exceptional and the general communiques were foreseeable as they were published in the Official Gazette.

However, considering the criteria adopted in the judgments of TCC itself, "tax liability" is also a main element as a "taxpayer" and should therefore be regulated by law. I believe that a provision which holds a third person responsible for paying the tax should be regulated in the law.

Provisions stating that the Ministry of Treasury and Finance is authorized to set procedures and principles in tax laws are frequently included in Turkish Tax Legislation. Instead, it may be more appropriate to grant the Ministry the authority to clarify the details of the application of the relevant article, as it is used as a criterion in the case-law of TCC.

2.3. Amendments in the Lower and Upper Limits of the Law on Specific Issues

The judgments of TCC regarding Article 73/4 should also be mentioned. TCC emphasizes that the authority to be given to the President of the Republic (formerly to the Council of Ministers) by law is limited to the specific issues mentioned in the article which are exceptions, exemptions, reductions and rates (TCC Case no. 2010/11, 2011/153, 17.11.2011).

However, the implementation of the restriction on the lower and upper limits of the law is arguable. For example, TCC hold that the provision which authorizes the Council of Ministers to determine the rates of title deeds separately for the properties according to a number of criteria set out in the law (not according to the lower and upper limits) is not contrary to Article 73/4. (TCC Case no 2017/117, 2018/28, 28.02.2018). Because, according to TCC, the relevant criteria are specific in the law, it is not possible for the administration to act arbitrarily. However, 73/4 states that the Council of Ministers (after the amendment, the President) can only be granted the right to change rates within the "lower and upper limits" of the law. Since it contains qualitative boundaries rather than quantitative boundaries i.e. the lower-upper bound, it is contrary to Article 73/4.

3. The Supervision of Turkish Constitutional Court Regarding the Principle of No Taxation Without Law

Regarding the current judgments of TCC, it can be said that TCC has softened its rigid supervision on the "formal dimension" of the principle of legality of tax. The reason of this approach may be the criteria adopted by the European Court of Human Rights (ECtHR) in terms of lawfulness. Naturally, ECtHR does not review if the relevant rule is regulated in a law by the legislator. ECtHR

explicitly emphasizes that the concept of law for the purposes of ECHR includes not only laws but also subsidiary legislation and case-law since the important thing is the quality of the rule (ECtHR, Hentrich/Fransa, no.13616/88, 22.09.1994, §.42; ECtHR, Beyeler/İtalya, no.33202/96, 05.01.2000, §.109).

Likewise, regarding the lawfulness of tax-related interference to the property right, TCC examined whether the unpredictability of the provisions of the law was eliminated by subsidiary legislation or case-law (TCC, Case of Türkiye İş Bankası Şubeleri, Case no. 2014/6193, 15.10.2015, § 60).

However, the principle of the legality of tax which is regulated in the Article 73 of Turkish Constitution provides a higher level of protection by means of requiring a law for the tax-related interference to be lawful (TCC General Assembly, Case of Türkiye İş Bankası A.Ş. no: 2014/6192, 12.11.2014, § 47). Since Article 73 is the special provision in terms of tax law, which is basically foreseeably for taxpayers is necessarily a law in both formal and material meanings.

Therefore, it should be clarified which elements of the tax are regulated by law. These rules should be regulated mainly in tax laws, in a systematic way and not as additional, temporary and duplicated articles (Karakoç, 2006:29). Contradictory and retrospective rules should be avoided as much as possible. Regulations of the executive should be explanatory and related to details of the law.

4. Conclusion

After examining the current relevant judgments of TCC, it is determined that the criteria regarding the scope and limits of the legality of taxation are not fully established and current tax legislations do not comply with the existing criteria. In my opinion, the solution of this problem may be to regulate the “principle” as a “rule” which has certain limits and content. As explained by Ronald Dworkin, there is a qualitative difference between legal principles and rules (Dworkin, 1977:24). As mentioned before, the content of the principles – unlike their purposes- are unclear to a certain degree.

In this context, I believe that the principle of legality can also be regulated as a rule of law, for example in the Tax Procedure Law in order to clarify which issues will be regulated only by laws. This suggestion does not refer to include the same text in the constitution as in Article 37 of Public Fiscal Management and Control Law no.5018. It rather refers to a more detailed rule as in article 4 of Misdemeanor Law no.5326. The clarification of the content of the principle as a rule with its uniform application in the judicial decisions will both contribute to the legal certainty and stability of tax administration’s actions.

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THE PRINCIPLE OF LEGALITY OF THE TAXES: AN EVALUATION ON TURKEY AND THE SELECTED COUNTRIES

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Abstract

In this study; The emergence and development of the principle of legality of taxation and how the principle of legality of taxation affects the taxation authority will be studied in Turkey and selected countries. The study also examines the modern financial systems based on the principle of legality of taxation. The administrative discretion has limited in these financial systems and all procedures related to the tax technique are shaped on the basis the principle of legality of taxation. The social and economic texture that enables the functioning of this financial structure is also examined. Similarly, countries where the principle of legality of taxation is controversial will be examined with structural difficulties related to social and economic structure in these countries.

Keywords: The Principle Of Legality Of Tax, Democracy, Tax Democracy Relations, The Effect of Principle Of Legality Of Tax on Social and Economic Structure.

JEL Code: H20, K34, D72.

1. Introduction

The unlawfulness of taxation and the lack of any legal limitation have caused various events in history. The Magna Carta Libertatum (1215), which is considered as the basis of the principle of legality of taxation and the first known document in this regard, throughout the history.

In this study, the historical development of the principle of legality of taxation, which started with Magna Carta Libertatum and significant developments in different countries has been discussed. In addition, the effects of these events on democracy were examined and it was emphasized whether the principle of legality of taxation had effects on the economic and social structures of the states and what results. In countries that adopt the principle of the legality of taxation, taxation-related violence and so on. it is possible to say that social events disappeared. The democratic structure has been strengthened and developed rapidly by ensuring the functioning of the principle of the legality of taxation.

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The principle of the legality of taxation has affected the social, political and economic rights of the society and provided a social compromise between the state and the society. The main reason for this is; In democratic societies, those who act contrary to the principle of the legality of taxation or those who make unbalanced taxation have heavy legal responsibilities. Undoubtedly, the principle of the legality of the taxation is not possible to be provided by the constitutions alone. Democratization movements must act in parallel. Developed countries, which can realize this harmony, provided their economic structures with institutional identity, reduced their unregistered economies to low levels, and strengthened their social, economic and political structures by ensuring justice in income distribution and taxation.

2. The Historical Development of The Principle of the Legality of Taxation

Magna Carta states that essentially unauthorized tax collection is not possible. According to Magna Carta, the King cannot impose taxes when he wishes, and when a new tax is imposed, those who will pay the tax vote. This rule was then based on many freedom and independence struggles. When taxpayers faced heavy and arbitrary tax burdens, they struggled with support from this rule.

In the following periods, in other countries, papers and contracts with reference to the Magna Carta were prepared and implemented (David, 1999: 370-371; Akdoğan, 2009: 198). Some of these are as follows.

The Petition of Rights and Bill of Rightsin the UK in 1627 and 1689, the Declaration of Independence, which began with the revolt of the Tea Taxes of England in the Americas and declared in 1776, the Declaration of Human Rights published in 1789, following the French Revolution, signed in 1808 in the Ottoman Empire the charter of alliance, the Universal Declaration of Human Rights adopted by the United Nations in 1948, can be cited as an example (Öncel et. al., 1985: 47). All these agreements regulate the financial relations between the state and the individual and determine the legal and institutional nature and framework of mutual powers and responsibilities.

3. Importance of the Principle of Legality of Taxation and Its Effect on Democratic Structure

Many historical and social events have been guided by the principle of legality of taxation. Some of the developments in this study are discussed. The historical and social events that have guided the principle of the legality of taxation have led to a number of effects on the social and economic structure in each country. The nature and depth of these effects were also investigated.

With the Magna Carta Agreement held in England in 1215, the issue of obtaining tax collection authority from the law is accepted as undisputed. Thus, the principle of the legality of taxation the most important one of the principles of taxation, was accepted by the king. In the first period, there were some problems in the applicability of this agreement. However, it is seen in the constitution of many countries that the principle of the legality of taxation is a fundamental necessity. In this context, Magna Carta has been the main reference point for the principle of the

legality of the taxation included in many constitutions. When we look at the past history of states and societies, it is seen that big rebellions and struggles for independence have emerged as a result of arbitrary arrangements, regardless of a specific legal rule. (Vanistendael, 1996; 1). Resistance to injustice and inequality in taxation has soon turned into tax revolts and then mass struggles. For this reason, placing the principle of the legality of the taxation by preventing arbitrariness in taxation has a special importance among the principles of taxation.

In almost all countries, the principle of the legality of taxation is guaranteed by the provisions of the founding constitutions of the countries concerned. The constitutions have disciplined the political authorities in a way by drawing the legal framework of the issues related to taxation. In the later periods, the institutional nature of the relationship between the state and the taxpayer has gained even more depth with the principles of taxation formed by taking the spirit from the constitutions (Smith, 2014: 30-31; OECD, 2014).

The principle of the legality of the taxation after the historical and social events has become a principle that must be included in the constitutions, as well as a secret social consensus between the state and the individuals. Accordingly, the principle of the legality of taxation guarantees the rights of individuals on the one hand. on the other hand, individuals also grant a taxation to individuals and parties to bring to power or to hand over the state to the government. This authorization does not only imply the collection of taxes on the basis of law. It also includes the authority of public expenditure these taxes. In this respect, those who come to elections are entitled to both the taxation authority and the authority of public expenditure

According to the principle of the legality of the taxation, the authority to impose taxes and similar financial obligations has been undertaken by the legislative body or the authority has been granted to this body by the people. It can be said that authority is not given to the executive body in particular. It can be stated that it is important to give this authority to the legislature where almost all sections of the society are accepted and represented because the executive organ may reflect the views of a certain segment and may not be fair, and that it is important for the results to be adopted by the whole society. This basic approach, of course, will contribute to the institutionalization and development of the democratic functioning in the country.

The legal nature of the taxation authority has changed over the history according to the state understanding. However, in today's modern state, the authority of taxation is based on state sovereignty. So the basic question is, how does state sovereignty work? In modern systems where state sovereignty is essential, it is not possible to implement this authority in an absolute and unlimited manner. The main thing here is the principle separation of powers. Legislative and judicial powers control the execution by discipline. it has a democratic functioning with all its bodies and functionality.

Governments collect taxes from taxpayers and realize public expenditures. In doing so, they must take into account the demands of the society and thus the taxpayers. Politicians who do not use these powers in a lawful way or who do not use them for the benefit of the electorate will be removed from the power by the people who choose them again. n the first elections, the people have the right to give their powers of taxation and spending to another power. in this context, we can say that the principle of the legality of taxation actually finances the functioning of the democratic structure. When voters think that there is an injustice in taxation, they can give the

power to collect tax immediately to another political power. In this context, it can be said that the legality principle of the tax alone is limited. The principle of the legality of taxation has the chance to be applied in a much stronger and more effective manner in countries where democracy, politics, law and economic structure are institutionalized.

The principle of the legality of taxation enters into the constitutions of most countries governed by a democratic and parliamentary regime. Of course, it is important that this principle, which is indispensable for the society, takes place in the constitutions. But how this principle is interpreted and applied by the state and society is much more important. This situation can be handled in terms of developed and developing countries. Due to the social events in developed countries, the desire for unlimited taxation of power has disappeared with time. Instead, taxpayer focused taxation principles such as justice and certainty in taxation were in question. Regarding the situation in developing countries, it can be seen that most of the principle of the legality of the taxation cannot be applied in a strong manner. The principle of the legality of taxation is symbolic in the constitutions of many developing countries. Inequality in taxation, inequality in distribution of income and tax awareness and public finance problems are problematic in every period.

4. Conclusion

To summarize the principle and scope of the legality of the taxation; The principle of the legality of the taxation is a multifaceted constitutional principle that influences many areas such as the development of democracy, the clarity of the tax, the spread of the tax on the base, taxation according to the financial power of all, the generality of the tax, the clarification of exceptions and exemptions, and the strengthening of the constitutional order.

The emergence and development of the principle of the legality of tax has been parallel to the development and institutionalization of democracy in many western countries and there is a close relationship between them. In this respect, the principle of the law of democratization of societies and the legality of taxes can be identified. the government uses the authority to collect taxes and public spending on behalf of the nation. Through elections, which are indispensable elements of democracy, society gives this power to whom it wishes. In this context, it is expected that the governments that care about the principle of the legality of taxation will be more successful in the elections.

The principle of the legality of taxation leads to the institutionalization of the state and the democratic structure, and affects the socio-economic dynamics of the society in different ways. In the economies where these principles are blended with democracy, positive data are obtained in macro and microeconomic indicators and it is seen that there is equality in taxation, determination and income distribution among citizens.

The principle of the legality of taxation is a culture that will develop together with democratic development. Where democratic rules and institutions are not sufficiently institutionalized, the principle of the legality of taxation is far from meeting the expectations of the parties. he principle of the legality of the tax is a kind of social agreement between the state and the taxpayers who protect the citizenship against the state, draws the limits of the state's taxation authority, and

provides the state with the resources that will enable the state to fulfill its responsibilities. Political decisions and behaviors that are contrary to this agreement or which do not satisfy the voters will result in the abolition of the elected. Preserving this principle has had positive results in most of the developed countries and has had positive effects on social, economic and political structure.

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ON THE EFFICIENCY OF BEHAVIOURAL PUBLIC ECONOMICS POLICIES: AN EXPERIMENTAL STUDY

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Abstract

Behavioral economics develops as an area with inferences and conclusions to help policy makers in public economics policies. In this study, the effectiveness of public policies formed by using the default choice manipulation and loss aversion concepts are examined through laboratory experiments. In the experiments, participants play a public goods game in groups of 4. In the first experiment, the effect of compulsory staying in a default option on participants' decisions has been evaluated by comparing the pre- and post-treatment decisions. In the second experiment, the result screens of the participants after each public goods game rounds were framed as loss and gain. Waiting time and loss framing found to have no effect on decisions.

Keywords: Behavioural Economics, Nudge, Behavioural Public Economics

JEL Code: D91, C91

1. Introduction

The information obtained from behavioral economics studies is beneficial for governments in developing public policies as well as the private sector. Accordingly, instead of traditional prohibitory or rewarding applications, policies which do not limit individuals' freedom of choice but direct them with a soft nudge to make the right choice for themselves or the society are adopted. An example of this type of policies can be seen in preferences to participate in private pension systems. When the default choice is changed to opt-out from opt-in, an increase was observed in the number of people staying in the system (Choi, Laibson, Madrian, & Metrick, 2004; Madrian & Shea, 2001).

In this study, the effectiveness of two applications of behavioural public policy is tested experimentally. The first one tests whether waiting in the default option has an effect on choices. In this experiment, participants first play a classic public goods game, then they cannot make choices by staying in a default option for differing lengths of period and lastly they play the classic game again. The other experiment is related to the framing of the results screen and tests whether the presentation of the results as gain or loss has an effect on the continuing choices.

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These experimental studies will shed light on the effectiveness of the methods that can be applied when preparing behavioral public policy.

2. Behavioural Public Policies

Since the beginning of 2017, Turkey implements default option policy for the private pension system. According to this system, all employees with certain conditions are automatically included in the individual pension system (automatic participation system) and those who wish to exit the system need to indicate this (opt-out). In the other private pension system which is operative since 2004, the default option is that individuals are out of the system and they need to formally apply to join (opt-in). As of February 15, 2019, there are 6.8 million participants in this system, while there are 5.2 million participants in the automatic participation system in the 26 months period. It can be said that changing the default preference is effective with the automatic participation system.

Nevertheless, opting out from the system takes time due to various reasons, and the participants who participate in the system automatically have to pay one or two premiums, that is they cannot leave the system for a certain period of time. Additionally, the government plans a 3-year mandatory stay in the system[1]. This situation damages the symmetry between different default choice situations, in addition to violating the libertarian paternalism notion of Thaler and Sunstein (2018). The first experiment in this study will test whether compulsory staying in the default option has an effect on choices.

Another practice that can be applied in behavioural public policies is about those who do not keep their individual savings in financial institutions. Kahneman and Tversky's (1979) Loss Aversion may be useful in this case. According to this theory, losses loom larger than gains. In this respect, rather than specifying how much they will earn when they keep their savings in financial institutions (gain situation), declaring how much they have lost (loss status) as long as they do not keep their savings in these organizations would be more effective for individuals. The second experiment in this study tests whether the result screens framed as loss form and gain form affect decisions.

3. Experiment

The first experiment consists of four applications. Participants form groups of 4 and play a public goods game. In this game, each participant in a group is given 100 tokens which would be converted to the exam points at the end of the experiment. Each participant independently determines how much of their tokens are kept in his/her private account and how much to be sent to the group account. Tokens held in the private account return without a change to the participant at the end of the experiment, whereas contributions of 4 group members to the group account are summed, then multiplied by a certain coefficient (all coefficients in the experiment was 1.6), and then divided by 4 and equally transferred to the group members. In other words,

[1] http://www.hurriyetdailynews.com/private-pension-system-to-be-compulsory-in-turkey-137164 (access date: 24.05.2019)

tokens in the personal accounts do not affect the tokens of the other group members, while the tokens sent to the group account are multiplied by a certain coefficient and are given back equally to all group members regardless of the amount they sent. Final earnings (π_i) of group members:

$$\pi_i = private\ account_i + (group\ account * 1.6)/\ 4$$

The above-described process constitutes one round of the experiment. In all treatments of the experiment, participants played 5 rounds of the base public goods game as described above. Then, participants could not make a decision on their tokens in *cooperative_1* and *cooperative_5* treatments, for 1 and 5 rounds respectively, all the tokens were transferred to the group account. Similarly, the participants were not be able to make a decision in *freerider_1* and *freerider_5* treatments, for 1 and 5 rounds respectively, but in these cases all tokens were transferred to their personal accounts. In each treatment, after the compulsory group or private account rounds, the participants played 5 rounds of base public goods game again. Each participant was only able to participate in one application. With these applications, the impact of compulsory stay in a default on the preferences of the participants can be evaluated by comparing the decisions in the first and last 5 rounds, that is before and after compulsory stay treatments. The hypotheses are:

Hypothesis 1a: In *cooperative_1* and *cooperative_5* treatments, contributions to the group account will be higher in the last 5 rounds compared to the first 5 rounds. Similarly, in *freerider_1* and *freerider_5* treatments, contributions to the group account will be lower in the last 5 rounds compared to the first 5 rounds.

Hypothehis 1b: In the *cooperative_5* treatment, contributions to the group account will be higher than in the *cooperative_1* treatment. Similarly, contributions to the group account will be higher in the *freerider_1* treatment than in the *freerider_5* treatment.

Hypothesis 1a states that a compulsory stay in a default option have an impact on the choices of the participants. The hypothesis 1b suggests that an increase in compulsory waiting time would also be effective on choices.

The second experiment also includes a base public goods game similar to the one above, but the treatments differ in the result screens. In *gain* treatment, at the end of each round participants face a result screen that indicates participant would earn “160 tokens” in that round if him/her and all other group members were to send all the tokens to the group account. In *loss* treatment, participants were shown they would have earned “160 – actual tokens more” if him/her and all other group members were to send all the tokens to the group account. The hypothesis for this experiment is as follows:

Hypothesis 2: Contributions to the group account will be higher in the *loss* treatment than in the *gain* treatment.

4. Results

The experiments were carried out with 116 students at Hitit University in December 2018 and April 2019. Exam points were used as the reward medium[1]. The experiment was run over computers interactively and programmed in ztree 4.1.6 (Fischbacher, 2007). Each participant took only one treatment and treatments lasted around 45 minutes.

Table 1. The Results of the First Experiment (average contributions to the group account)

Treatment	n	Average	Before	After	# Zero Contributors	
					Before	After
cooperative_1	20	49.59	50.82	48.36	9	13
cooperative_5	24	27.22	29.02	25.42	21	34
freerider _1	8	44.65	41.85	47.45	11	11
freerider _5	20	31.90	34.71	29.10	12	12

Table-1 shows the results for the tokens transferred to the group account in the first experiment. In all the treatments except the *freerider _1*, average transfers to the group account are not in line with our hypotheses, however these differences are not statistically significant according to Wilcoxon rank sum tests. On the other hand, the number of singular observations of zero-contributions appear to have increased after the compulsory wait on the *cooperative_1* and *cooperative_5* treatments. Nevertheless, only the difference in number of zero-contributions in *cooperative_5* treatment was found to be significant (χ^2 = 3.9862, Fisher's exact test p = 0.032). According to the panel hurdle regression with *cooperative_1* and *cooperative_5* data, only the coefficient of periods was negative and significant. This is in line with the case of diminishing contributions to the group account observed in previous public goods experiments.

Table 2. The Results of the Second Experiment (average contributions to the group account)

	NGL (n=22)	NLG (n=22)	Total
neutral	31.40	32.19	31.76
gain	35.74	24.75	31.34
loss	30.35	29.74	30.04

Table-2 shows the results of the second experiment. In the NGL application, the participants played a base public goods game for the first 5 rounds (*neutral*), it is followed by 5 rounds of *gain*

[1] 2 points for participation, 12 points maximum, and ~8 points on average.

treatment and then 5 rounds of *loss* treatment. In NLG application, the order of the *gain* and *loss* treatments changes. The differences in the table were not significant according to Wilcoxon rank sum tests. In the panel tobit regression, the coefficient of periods variable was negative and significant as it is in the first experiment. The coefficients of the dummy variables for *loss* and *gain* treatments were also significant, but the difference between the values of these coefficients (8.408 and 8.526, respectively) was not statistically significant.

As a result, we couldn't find a significant difference between our treatments. The main reason for this is that the number of observations is insufficient and it is planned to increase the number of observations with new experiments.

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FACTORS AFFECTING TAX MORALE: AN EMPIRICAL STUDY ON STUDENTS OF AKSARAY AND ÇUKUROVA UNIVERSITY

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Abstract

Tax morale is a multi-dimensional concept. The concept that has an individual and social dimension affects the attitudes and behaviors of individuals against taxes. As tax morale is perceived differently from one society to another and its effect can be different based on society, it may also show differences in family structures, societal ties and environmental relationships of individuals within the same society. The aim of this study is to compare tax morale levels of the students of department of Public Finance and department of Economics at Aksaray University and Çukurova University and determine the socio-cultural factors and some demographic factors which affect the tax morale of the students. The tax morale score of the students is found 3,57. Tax morale score is interpreted when it is low as the average approaches 1 (strongly disagree) and it is high as the avarage approaches 5 (strongly agree). Accordingly, tax morale level of students (3,57) is above average. As a result of empirical study, the comparison results between the tax morale scores of different university students indicate that: Tax morale of students of Aksaray University is higher than the students of Çukurova University and generally tax morale level of female students is higher than male students.

Keywords: Tax, Tax Morale, Tax Psychology, Statistical Analysis.

JEL Code: H20, H29, C10.

1. Introduction

In this study, it is aimed to compare the tax morale levels of 535 students studying at the Public Finance and Economics Departments of Aksaray and Çukurova Universities, and to determine some factors affecting the tax morality levels of the students. A questionnaire consisting of 3 sections prepared according to 5-point Likert scale is used in the study. The first part of the questionnaire includes demographic characteristics, the second part, 4 questions about socio-cultural statements and the third part, 6 questions about tax morale. With these questions, the attitudes of the students studying in two different universities towards the tax morale are

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measured. In the evaluation of the questionnaire data, Statistics Package for The Social Sciences (SPSS 18.0) is used. The significance level is 0,05 for statistical analysis.

2. Theoretical Framework

Tax morale can be considered as a moral obligation to pay taxes or a belief in contributing to society by paying taxes (Torgler, 2004: 239). Due to the strong evidence that tax morale affects the actual tax payment behavior, finding the determinants of tax morale can help both to understand and fight tax evasion (Doerrenberg & Peichl, 2013: 293). Tax morale is often defined as the intrinsic motivation to pay taxes. At the same time, tax morale is closely related to tax compliance. There are many factors in shaping tax morale (Luttmer & Singhal, 2014: 150). Moral norms, trust in state, social pride as well as social, economic and political factors are effective. In addition, socio-psychological factors also shape the attitudes and behaviors of individuals about tax. Human being is by nature a social being and the behavior of other people in society on the shaping of tax morality is also a significant factor (Lillemets, 2010: 238).

3. Survey Findings

In this study gender, department and university are used as independent variables and the effects of these variables on tax morale are analyzed. The purpose of this study is two-fold. First, tax morale behaviors of students in Public Finance and Economics of Aksaray and Çukurova Universities are compared. Second, the socio-cultural factors and some demographic factors which affect the tax morale of the students are determined. The data obtained from the study are analyzed with some statistical methods such as frequency distribution, reliability analysis, Kolmogorov-Smirnov test, Kruskal Wallis H test.

Of the students who participated to survey, 47,5% are from Aksaray University, 52,5% are from Çukurova University, 39,6% are male, 60,4% are female, 49% are studying in department of Public Finance and 51% are studying in department of Economics. The scale's reliability is measured using Cronbach alpha reliability coefficient. The coefficient for all items is found to be 0,874. Moreover, the coefficient for the 'responses of questions about tax morale' subscale is found to be 0,904. A Cronbach's α of greater than or equal to 0,6 is interpreted as acceptable level of reliability in most social science research situations. So the values of the coefficients show that the survey is highly reliable. According to the Kolmogorov-Smirnov test result, it is found that the tax morale is not *normally distributed* (sig: ,000 < 0,05). Thus, Kruskal Wallis H test is used to compare group means of the sub-dimensions of variables University_Department and University_Gender in Table 1.

Table 1. Comparisons of the Responses of Tax Morale Questions for the Variables University_Department and University_Gender-Kruskal Wallis H Test Results

Statements	University_Department	N	Mean Ranks		University_Gender	N	Mean Ranks	
Paying taxes is an important citizenship duty.	Çukurova_Public Finance	136	**125,18**	Chi Square: 181,382 sd: 3 Sig: ,000	Çukurova_Female	164	**224,94**	Chi Square: 85,014 sd: 3 Sig: ,000
	Çukurova_Economics	145	297,49		Çukurova_Male	117	198,88	
	Aksaray_Public Finance	126	**346,68**		Aksaray_Female	159	**339,41**	
	Aksaray_Economics	128	308,89		Aksaray_Male	95	307,94	
If I evade taxes, and if people around me learn about it, I would be very ashamed.	Çukurova_Public Finance	136	**162,18**	Chi Square: 92,766 sd: 3 Sig: ,000	Çukurova_Female	164	**241,24**	Chi Square: 33,625 sd: 3 Sig: ,000
	Çukurova_Economics	145	303,52		Çukurova_Male	117	226,52	
	Aksaray_Public Finance	126	**311,24**		Aksaray_Female	159	**318,89**	
	Aksaray_Economics	128	297,63		Aksaray_Male	95	280,11	
Paying taxes as a taxpayer is an indicator of being moral.	Çukurova_Public Finance	136	**166,17**	Chi Square: 89,425 sd: 3 Sig: ,000	Çukurova_Female	164	**227,52**	Chi Square: 39,093 sd: 3 Sig: ,000
	Çukurova_Economics	145	290,92		Çukurova_Male	117	234,79	
	Aksaray_Public Finance	126	**320,61**		Aksaray_Female	159	**316,32**	
	Aksaray_Economics	128	298,44		Aksaray_Male	95	297,91	
The low tax morale of a society forces the state in fiscal and economic terms.	Çukurova_Public Finance	136	**161,32**	Chi Square: 99,642 sd: 3 Sig: ,000	Çukurova_Female	164	**234,34**	Chi Square: 52,588 sd: 3 Sig: ,000
	Çukurova_Economics	145	284,72		Çukurova_Male	117	211,91	
	Aksaray_Public Finance	126	**322,79**		Aksaray_Female	159	**322,38**	
	Aksaray_Economics	128	308,46		Aksaray_Male	95	304,17	
Tax morale is an important indicator of development.	Çukurova_Public Finance	136	**147,28**	Chi Square: 129,628 sd: 3 Sig: ,000	Çukurova_Female	164	**226,45**	Chi Square: 66,341 sd: 3 Sig: ,000
	Çukurova_Economics	145	288,51		Çukurova_Male	117	211,34	
	Aksaray_Public Finance	126	**337,52**		Aksaray_Female	159	**334,17**	
	Aksaray_Economics	128	304,61		Aksaray_Male	95	298,77	
The fiscal and economic education that I have acquired is improving the tax morale.	Çukurova_Public Finance	136	**144,76**	Chi Square: 137,866 sd: 3 Sig: ,000	Çukurova_Female	164	**236,18**	Chi Square: 59,359 Sd:3 Sig: ,000
	Çukurova_Economics	145	296,55		Çukurova_Male	117	204,74	
	Aksaray_Public Finance	126	**343,17**		Aksaray_Female	159	**324,33**	
	Aksaray_Economics	128	292,59		Aksaray_Male	95	306,57	

The results on Table 1 show that there is a significant difference in sub-dimensions of variables University_Department and University_Gender based on the statements (sig: <0,05). Results of analysed mean ranks belonging to the groups show that Public Finance students have more tax morale than Economics students at Aksaray University from the perspective of tax marale questions. Similarly, Table 1 shows that Economics students have more tax morale than Public Finance students at Çukurova University. Table 1 shows that the difference is statistically significant in the statements based on gender. Results of analysed mean ranks belonging the groups show that females have more tax morale than males from the perspective of statements for both Aksaray University and Çukurova Universities. Furthermore, the mean rank of female students of Aksaray University about the statements related tax morale is the highest.

Table 2. Kruskal Wallis H Test Results Related with Socio-Cultural Factors-University_Gender and University_Department

Statements	University_Department	N	Mean Ranks		University_Gender	N	Mean Ranks	
SC1	Çukurova_Public Finance	136	**194,85**	Chi Square: 54,924 sd: 3 Sig: ,000	Çukurova_Female	164	**229,50**	Chi Square: 39,159 sd: 3 Sig: ,000
	Çukurova_Economics	145	262,63		Çukurova_Male	117	230,28	
	Aksaray_Public Finance	126	**321,02**		Aksaray_Female	159	**307,54**	
	Aksaray_Economics	128	299,61		Aksaray_Male	95	314,74	
SC2	Çukurova_Public Finance	136	**113,64**	Chi Square: 211,574 sd: 3 Sig: ,000	Çukurova_Female	164	**220,38**	Chi Square: 101,615 sd: 3 Sig: ,000
	Çukurova_Economics	145	298,53		Çukurova_Male	117	193,15	
	Aksaray_Public Finance	126	**343,53**		Aksaray _Female	159	**343,53**	
	Aksaray_Economics	128	323,09		Aksaray_Male	95	315,97	
SC3	Çukurova_Public Finance	136	**319,27**	Chi Square: 30,340 sd: 3 Sig: ,005	Çukurova_Female	164	**269,95**	Chi Square: 2,127 sd: 3 Sig: ,546
	Çukurova_Economics	145	222,89		Çukurova_Male	117	268,95	
	Aksaray_Public Finance	126	**254,00**		Aksaray_Female	159	**255,79**	
	Aksaray_Economics	128	278,41		Aksaray_Male	95	283,90	
SC4	Çukurova_Public Finance	136	**159,50**	Chi Square: 115,225 sd: 3 Sig: ,000	Çukurova_Female	164	**225,37**	Chi Square: 79,303 sd: 3 Sig: ,000
	Çukurova_Economics	145	266,66		Çukurova_Male	117	199,97	
	Aksaray_Public Finance	126	**337,25**		Aksaray_Female	159	**330,86**	
	Aksaray_Economics	128	316,64		Aksaray_Male	95	320,18	

The socio-cultural factors affecting the tax morale such as 'the level of trust in government (SC1)', 'a sense of civic virtue (SC2)', 'the level of accepted ruling party (SC3)' and 'religion belief (SC4)' on tax morale have been analyzed in this study. In Table 2, Kruskal-Wallis H test is used to measure differences in terms of socio-cultural factors based on participants' gender and department. As can be seen in Table 2: since the p values of all the statements are less than 0,05 at 95% confidence interval of the difference (except for SC3), these differences are assessed as a statistically significant ($p<0,05$). Moreover, the socio-cultural factors have all statistically significant effects on tax morale based on participants' department.

4. Conclusion

Tax morale is a phenomenon affected from many factors such as economic, social, cultural and demographic factors. The study aims to investigate the factorsinfluencing students' tax morale.The study compares male and female scores for Aksaray and Çukurova Universities. From Table 1, it is thought that female scores would be significantly higher than male scores, significance being defined here as higher scores for all statements. Results of analysed mean ranks belonging to the University_Department show that the students of department of Public Finance have more tax morale than the students of department of Economics at Aksaray University from the perspective of tax questions. Similarly, Table 1 shows that the students of department of Economics have more tax morale than the students of department of Public Finance at Çukurova University.

In general, tax morale of students of Aksaray University is higher than the students of Çukurova University and the tax morale of female students is higher than male students for both universities. In conclusion, it has been determined that while the mean rank of female students at Aksaray University about the statements is the highest, the mean rank of the students for Economics department at Çukurova University about the statements is the lowest.

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THE EFFECT OF ELECTRONIC TAXATION SYSTEM ON VOLUNTARY TAX COMPLIANCE

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Abstract

It is considered that if the taxes, which are the most important financing instrument of public expenditures, are easily paid by taxpayers and tax proceedings are carried out without difficulty, the taxpayers' voluntary tax compliance will increase. For this purpose, the government is working hard to carry out the tax transactions in every stage of the electronic environment. In this study, it is aimed to develop a data collection tool in order to determine the effect of electronic taxation system on tax compliance. In this context, a questionnaire was applied to 195 independent accountants and financial advisers who work in Afyonkarahisar and Konya town centers and who are using electronic taxation system. Factor analysis was performed by using statistical programs. In this respect, validity and reliability analyzes were performed and as a result, a scale consisting of two factors and 13 items was developed. According to the results of the research, financial advisors, electronic taxation it is observed that the system has a positive effect on the voluntary tax compliance and the efficiency in the taxation process.

Keywords: Electronic Taxation, Tax Compliance, Financial Advisers

JEL Code: H21, H11, H26, M48

1. Introduction

In recent years, with the acceleration of technological developments, it has begun to adopt principles such as keeping up with technological developments in public sector and sustaining public transactions faster and reducing stationery. In this way, it is ensured that the taxpayers can access the transactions to be carried out with the state institutions in a fast and electronic environment with the services such as e-government with the attempts to digitalize in various public activities.A significant portion of the digital transformation efforts are carried out in the taxation process and is called electronic taxation. Electronic taxation (e-taxation) transactions are defined as a general definition, filling out tax returns by taxpayers electronically and delivering them to the tax office(Kocamış ve Kekeç, 2017: 276-277). Thus, the taxation transactions is carried out online with the electronic taxation system. In addition, transactions such as electronic notebook, electronic declaration, e-archive invoice application, e-ticket application, e-polling and

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electronic invoice are among the transactions that include electronic taxation. In this study, it is aimed to develop a data collection tool in order to determine the effects of electronic taxation system on voluntary compliance. For this purpose, we have developed a questionnaire is applied to independent accountants and financial advisers working in Afyonkarahisar and Konya downtown area. In line with the findings, electronic taxation processes were tested and interpreted by professional accountants who are an important part of taxation procedures.

2. Literature

In a study related to electronic taxation, the effect of e-taxation practices on taxation with the principle of economics was examined and a questionnaire was applied to financial advisors in Tokat for this purpose. Accordingly, it is emphasized that the margin of error in electronic transactions is significantly reduced and business performance is increased (Çimen, 2017). In another study, the relationship between taxpayers' numbers and tax revenues was discussed with the transition to the electronic tax system in Azerbaijan Tax System and a positive relationship was found between tax revenues and taxpayers in the periods 2006-2015 (Allahverdi & Kuzucu, 2017: 93-94). Another study indicated that with regard to the adoption of e-declaration system in Turkey conducted a survey for independent accountants and financial advisers of the technological trends in the positive direction (Turan & Özgen, 2009: 145).

3. Research Methodology

3.1. Study Group

The study group consisted of 195 independent accountants and financial advisors using electronic taxation system working in Afyonkarahisar and Konya provincial centers. When the variables related to the study group were examined, it was determined that they were generally male and between the ages of 30-40. It is observed that the independent accountants and financial advisors, who form the working group, usually have 16 years or more of professional experience and liability period. In addition, although the working group differs in terms of the duration of using e-taxation, it can be stated that it consists mostly of people who use more than 1-4 years and more than 10 years.

3.2. Developing the Data Collection Tool

In the research, a scale was developed to determine “The Effect of Electronic Taxation System on Tax Voluntary Compliance”. In order to improve the scale, items were prepared after the related literature was searched. Studies of Egeli and Diril (2014) and Çimen (2017) were used in the scale of the items that were obtained related to electronic taxation. In order to determine whether the items of the scale are sufficient in terms of quantity and quality to measure the behavior to be measured (Büyüköztürk et al. 2008: 169), the scale was submitted to expert opinion for scope validity. The scale was re-arranged in line with the expert opinion and consisted of 19 items.

"Scale for Determining The Effect of Electronic Taxation System on Voluntary Tax Compliance" was prepared as a Likert-type five-point grading aiming to determine the frequency of participants in meeting the expressions given. The answers of scale consists of "1-Strongly disagree, 2-Disagree, 3-Partially agree / Partially disagree, 4-Agree, 5-Strongly agree. The answers are numbered 1→5 or 5→1 according to negative or positive situation of statements.

4. Findings

First the reliability analysis and validity analysis of the data, collected from the study group, were performed. First of all, Cronbach Alpha reliability coefficient of all items constituting the scale was calculated. At this stage, some items which were found to reduce the reliability of the scale and had a negative reliability coefficient, were excluded from the scale. KMO and Bartlett tests were performed to determine whether the data set was suitable for factor analysis and KMO value was found to be 0.859. This result shows that the sample size is sufficient and the data set is perfect for factor analysis.In addition, Bartlett, (BS) test result [x2 = 1160,397; P <.05] and the significance value indicate that there is a sufficient relationship between the variables to make factor analysis (.000).

After testing the suitability of the data for analysis, the data were subjected to basic component analysis. Initially, five factors with a factor eigenvalue greater than 1 were found. When the scree plot graph which is the result of factor analysis is examined, it is determined that the scale shows a two-factor structure. Since items 3, 7, 18 and 19 of the scale have high load values at multiple factors at the same time and the difference between high load values is 0.10 and less, these substances are accepted as the overlapping substance and they are excluded from the scale. The eigenvalue of the first factor of the scale was determined as 4,965 and the second factor was found to be 1,442. The first factor of the scale explained 38,195% of the total variance and 11,094% of the second factor. The variance explained by all factors is 49,289%. In this direction, the scale explains the impact of electronic taxation on voluntary compliance with tax by 49%. It can be stated that this value is a high value for social sciences.However, it is seen that the substances have a load value of at least 0,504 and maximum 0,809.

Cronbach's Alfa value of reliability test was found to be 0.858. Since the Cronbach Alpha coefficient is above 0.70, the reliability of the scale is high. When the reliability of the factors were examined, the reliability coefficient of the first factor was 0.838 and the second factor's reliability coefficient was found to be 0.718. The reliability coefficients of all factors were higher than 0.70, indicating that the scale was highly reliable in all aspects of the scale. Corrected item total correlations ranged from 0.418 to 0.635.

When the data obtained from the scale are analyzed, it is seen that the participants generally respond to the scale items in the "Agree" level. Accordingly, the independent accountants and financial advisers who participated in the study have a positive view on the electronic taxation system and considered that this system has a positive effect on the voluntary compliance to the tax and on the taxation process. When the items of the scale are considered, the item with the highest mean is 4.01. "E-Public Finance practices save time ". Thus, 82% of respondents think that electronic public finance transactions save time. The relationships determined in terms of

demographic and other independent variables were tabulated and presented to the relevant people.

5. Results

Electronic taxation refers to the realization of tax transactions in electronic form, as well as interactive tax procedures and e-finance practices. It is expected that many transactions related to the taxation process can be realized in electronic environment, and it will be expected to have a positive effect on voluntary compliance with tax due to the time it will bring to taxpayers and professional accountants and to accelerate the transactions. In this context, it is considered important to determine the opinions and perceptions about e-taxation system. It is thought that scale development will contribute to draw attention to the views of the independent accountants and financial advisers in the taxation process on the effects of e-taxation. Therefore, it is aimed to develop a measurement tool to determine the effect of electronic taxation system on voluntary compliance.

When the findings for determining the validity and reliability of the scale to determine the effect of the electronic taxation system on taxation voluntary compliance are evaluated together, it can be said that the scale is a valid and reliable data collection tool that can be used to determine the perceptions of electronic taxation on the voluntary compliance. According to the findings obtained, it can be stated that the measurement tool developed within the scope of this study will eliminate a significant deficiency in the relevant field and it can be used as a measurement tool that can be used in future studies. Findings indicate that electronic taxation processes will generally increase voluntary compliance and reduce alternative costs.

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A LABORATORY EXPERIMENT FOR THE DETERMINATION AND DEVELOPMENT OF PUBLIC EXPENDITURE AWARENESS IN PRIMARY AND HIGH SCHOOL STUDENTS: THE CASE OF TRABZON PROVINCE

Yasemin ARIMAN[1]

Abstract

The provision of public expenditures by the state need tax revenue and collecting tax revenue is related to the ability of taxpayers to establish a financial connection. The financial connection is provided if the relationship between the expenditures made for society and the taxes that are the financing of these expenditures are established. According to this, in order to establish a financial connection should be above a certain level.In this context, the main subject of this study is the public expenditure awareness required for the establishment of a financial connection that could positively affect the views of primary and high school students on fiscal connection. The aim of the study is to identify and develop public expenditure awareness of primary and high school students. For this purpose, an experiment was conducted with 350 students. Before starting the experiment, a questionnaire was applied to measure the students' public expenditure awareness. During the process, an explanations was developed to improve public expenditure awareness, and students were actively involved in this process. When the process was completed, the questionnaires were re-filled. According to this, pre-test findings revealed that primary and high school students did not have public expenditure awareness. The results of the post test show that given a public explanations with a process to students are actively involved make an awareness of public expenditure. In addition, it was observed that financial connection could be ensured with the explanations process in which the students were included and thus tax compliance could be increased.

Keywords: Fiscal Awareness, Public Expenditure Awareness, Behavioral Public Finance, Tax Compliance

JEL Code: H2, H3, H4, I2

1. Introduction

It is known that the fiscal connection in a country has a positive effect on tax compliance. So, there are studies for the establishment of fiscal connection taxpayers and future taxpayers, following the understanding of the importance of the establishment of fiscal connection in tax compliance.

Fiscal connection depend on tax awareness and public expenditure awareness. According to this tax awareness is a sub-branch of financial awareness, but it is not enough to increase tax

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compliance. In this context, efforts to identify and develop tax awareness remain insufficient to increase financial awareness. So this situation shows the importance of the determination and development of public expenditure awareness.

The aim of this study is to determine the public expenditure awareness of primary and high school students and to make suggestions for its' improvement. The study included primary and high school students in Trabzon. In this context, an experiment was designed to measure the public expenditure awareness of the students. There is an open-ended question was addressed to students before and after the experiment.

In the study, firstly, conceptions of financial connection, financial awareness and public expenditure concept were given, followed by the related literature review. Secondly, the method and findings of the study were included and recommendations were made.

2. Financial Awareness, Public Expenditure Awareness: Conceptual Framework

The financial connection is the establishment of the relationship between the expenditures on society and the taxes that are the financing of these expenditures.In order to establish a financial connection, fiscal awareness, in other words, tax and public expenditure awareness should be above a certain level. In this context public expenditure awareness can be defined as the fact that taxpayers have information about public expenditures and at the same time they know that these expenditures are expenditures made according to the needs of the society.

2.1. Literature

Behaviors of individuals; perception-attitude-behavior occurs in the hierarchy. According to this the public expenditure awareness of taxpayers will start with the perception of public expenditure.

Primary and high school students made for the determination of the tax awareness questionnaire and interview studies evaluated for Turkey; it is seen that some of the students stated that taxes were paid in return for public goods and services (Sağbaş and Başoğlu, 2005: 132; Demir and Cigerci, 2016: 134; Karaot, 2010: 75; Taytak, 2010: 506; Zorlu, 2012: 66; Çelik ve Eroğlu, 2014: 312; Karaca, 2015: 61). In this context, it can be said that some of the students know that they have information about public goods and services and tax is paid in return for these services.

How, where and how much collected tax revenues are spent that affects tax compliance of taxpayers. In this context, it was observed that the students did not fulfill their tax liabilities with the taxpayers thought that "taxes are not spent in the right places" (Sağbaş and Başoğlu, 2005: 138; Karaot, 2010: 90; Çelik & Eroğlu, 2014: 311). According to these studies, it can be said that some of the students who participated in the survey and interview study can establish a financial connection.

2.2. Method

The experiment measure and improve the public expenditure awareness of primary and high school students. The aim of this study is to determine the public expenditure awareness of primary and high school students and to increase them after. In order to realize this aim, a questionnaire form, which is supposed to determine the public expenditure awareness of the students, has been formed. In the questionnaire, open-ended question about public expenditure awareness were asked.

After the questionnaire form was formed, the necessary permissions were obtained from the provincial national education directorate and provincial governor. Then, the elementary and high school students, 350 students include experiment that it take 25-20 min. The experiment was carried out with pre-test and post-test.

It is known that both the family-social environment and the education they receive at school are important in the education and development of students. In this context, the fact that the experiment provided access to all student groups affected by these two factors. In this way, this experiment is aimed at ensuring participation from many schools and students; it allows the elimination of the differences that may arise from the schools and the family-social environment, and thus to provide generalizable results with the experiment, varying in the range of 25-30 minutes. So this study used the sample group was not found until now. The place where the experiment is applied, the sample group and the aim of the students to measure public expenditure awareness are the original values of this study.

Measure and improve public expenditure awareness; a carpet reflecting the description of a modern city was used. According to the functional classification for use in the explanations process, symbols that can represent public expenditures are kept in a corner ready for use in return for collected taxes.

The experimental groups were composed of middle school students and high school students. The reason for the separation of groups in this way; try more simple application of middle school students. For this simplified narrative, the tax administration of the Presidency of Revenue Administration was benefited from the contents of secondary and high schools (GİB, 2007, http://f.eba.gov.tr/gib/). Following the completion of the survey, students were asked to gather around the carpet. Then the students were asked which Job they wanted to be when they grew up. Assuming that they grew in line with their answers, they were paid in accordance with the profession they wanted to do with the money symbols.

Tax and public expenditures are generally addressed to students and questions about what the community may need to spend. For example, if there is a problem in a relationship between the doctor and the patient, the question is asked where the parties should apply. It was then decided as a group that a security and a judiciary was needed to solve the problem. In this way, students are informed about which expenditures occur in case of a social need and which expenditures are included in the expenditure item according to the functional classification. In order to build a courthouse after the decision in question, some of the salaries given to the students were asked to give to the state as tax. After the taxes were collected, a symbolic courthouse was placed on the carpet in a predetermined place. Thus, according to the functional classification of public

expenditures, a need has been created for each of the expenditure items and tax is requested in return. In this context, it was ensured that the public expenditures of the students, the reasons why the taxes were necessary and important, were included in the process and the students were able to make a financial connection. When this explanations process was completed, the students were asked to re-fill the questionnaire and the experiment was terminated.

2.3. Findings and Evaluation

In order to measure and improve students' public expenditure awareness, the questionnaire includes open-ended question that “What do you think is public expenditure?. According to this, pre-test and post-test findings are as follows.

Pre-test findings of secondary school students show that they identify public expenditures as “money paid by people”, “invoice”, “money paid to state”, “spent money”. Pre-test findings of high school students show that they identify public expenditures as “common expenditure”, “wages contributing to the public budget “, “work against taxes”, “general expenditure of government offices", “an obstacle in front of the private sector“, “education, health, infrastructure and bridge expenditures“, “expenditure on state interests”, and “equal to tax”.

According to the pre-test results of secondary school students, it can be said that students do not have public awareness. According to the pre-test results of high school students, it can be said that students' public expenditure awareness is in part. High school students' public expenditure awareness is partly due to their age and education level, and high-talented high school students.

According to the post test of the secondary school students, they describe public expenditures in general; It was seen that “the expenditures made to meet the needs of the people”, “the expenditures made for us by the state that we can not do alone”, “the expenditures made by the state to do what is useful to us”, and “the expenditures made by the state institutions for our needs”. At the end of the experiment, it can be said that each of the participants in the secondary school group has a correct definition of public expenditure.

According to the post test results of the high school students, they describe public expenditures in general; “state expenditure for us”, “the expenditure on the benefit of the state; public order, environment, health, education, outreach, culture, infrastructure and housing”, “expenditure for the welfare of the community”, and “expenditure for living in higher quality and at peace”. At the end of the experiment, it can be said that each of the high school group participants has a correct definition of public expenditures.

When the pre-test and post-test findings were evaluated together; It can be said that the students have no awareness of public expenditures and the public expenditure awareness of all the participants increased as a result of the explanations provided with the experiment. In this case, taxpayers who are very difficult to change their current tax habits, can be said to have tax awareness as well as public expenditure awareness and taxpayers who can financially establish long term financial awareness.

3. Conclusion

In order to increase tax compliance there is a need for the establishment of the financial connection the financial awareness for the establishment of the financial connection and the awareness of tax and public exenditure for the formation of financial awareness. This study was prepared for the purpose of determining and improving public expenditure awareness to increase tax compliance of future taxpayers. In this context, an experiment was conducted. The pre-test and post-test questionnaire method was used to determine the public expenditure awareness of the students and then to make suggestions for the improvement of their awareness.

Before and after the experiment, the question of Public Expenditure is asked to the students in order to determine the awareness of public expenditure. According to this, it was determined that the students had no awareness of public expenditure before the experiment and that after the experiment, each of the students who participated in the experiment had a awareness of public expenditure and could establish a financial connection. Thus, it can be seen that the method used in the study may be successful in increasing tax compliance of future taxpayers.

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THE PUBLIC BANK RESURGENT: PROSPECTS OF DEMOCRATIZATION FOR SUSTAINABLE DEVELOPMENT

Thomas MAROIS[1]

Public banks are resurgent, triggered by the failure of private finance to meaningfully confront the green transformation. But will resurgent public banks act in the public or private interest? How can progressives ensure public banks support a just green transformation? Democratization is the key.

The resurgent turning point for public banks was really the UN's 2015 Addis Ababa Action Agenda on how to finance the 2030 Sustainable Development Goals (SDGs). The international community finally acknowledged what most already knew: private finance had no appetite for saving the planet without first feeding insatiable shareholders. Ergo, high-risk, low-return green investments weren't on the menu.

The solution? For the UN, the World Bank, and the OECD it is to subordinate public finance to private interests. Public development banks should take the lead in absorbing private investors' risks to guarantee their projected returns. There is no other way of cajoling otherwise reticent financiers to fund the global transition to a low-carbon, climate resilient future. Besides, public banks have limited financial capacity. The green transition needs the seemingly unlimited pools of global financial capital. This is the core message of the UN's Inter-Agency Task Force 2019 Financing for Sustainable Development Report, with an important sub-text being public financial incapacity. Reinforcing existing neoliberal tropes, there is no alternative but to mobilise private finance for climate finance. The nuanced message being we now need public finance to underwrite it.

But what if this wasn't true, or at least not in the way pitched by neoliberal ideologues and unhindered growth advocates? A new edited book by the Transnational Institute (Amsterdam), Public Finance for the Future We Want, paints a different picture. The contributors evidence the many ways that the future of finance can and should be public, backed by real-world examples of alternatives spanning the globe. However, the structural power of global predatory finance must be curbed in order to build the basis for a democratically-organised and life-sustaining future. Public finance must enable the public, not private, interest.

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Public Banking Power

Public banks, in particular, are shown to have much greater financial capacity than commonly believed. Whereas the IATF 2019 Report claims there is only $5 trillion in combined public bank assets (so, hardly sufficient to tackle the $4 to $6 trillion in additional annual climate mitigation investments by 2030), the TNI contribution demonstrates that there are nearly 700 public banks around the world that have combined assets nearing $38 trillion (that's about 48 per cent of global GDP). Put otherwise, 20 per cent of all bank assets are still publicly owned and controlled.

This accounts for just the national and sub-national banks. Examples span the globe from the well-known French La Caisse des Dépôts and the China Development Bank to the lesser-known Vietnam Bank for Social Policies and the Turkish Ilbank (Provinces bank). If you add in the state-owned multilateral development banks (like the World Bank) plus public pension and sovereign wealth funds plus central banks, then total combined public financial assets jump to just under $74 trillion. Given political will and popular support – something of the kind envisioned in the Green New Deal – public financial capacity can be rapidly scaled-up and mobilised.

If we go blindly down the current UN-authenticated climate finance path, existing public banking capacity is at serious risk of being captured by private financial interests. Should this occur, private investors' profit- and growth-driven imperatives will undermine any hope of a just and green transformation in the public interest. Moreover, public finance will only feed the very same private financiers that contributed to the climate finance crisis in the first place! Only in a neoliberal world does this make for coherent policy-making.

One alternative solution is to democratize public banks, thus enabling the mobilisation of public bank resources for a just and green transformation in the public interest.

Democratizing Public Banks - The Costa Rican Example

There are already-existing models of democratization. At a minimum, most public banks' Boards of Directors will include some combination of government ministers and appointed representatives from the community. For example, the modest North American Development Bank (NADB) has a 10-member Board made up mostly of government representatives while the massive German development bank, the KfW, has a much more inclusive 37-member Board with wide ranging societal representation.

The most inspiring model is the Costa Rican 'Banco Popular' (Banco Popular y de Desarrollo Comunal). Its model of democratization can enrich debate on financial alternatives for a green and just transformation. Founded by the government in 1969, the Banco Popular operates under public law as a 'worker-owned' bank geared towards serving the 'collective welfare' of society. By law, Costa Rican workers must deposit 1.5 per cent of their wages into the Banco Popular. After a year, 1.25 per cent of their contribution is transferred to the worker's pension fund. The remaining 0.25 per cent is held in the bank as a form of permanent capitalization to support mandated lending programmes.

The workers' contributions come with meaningful representation. In 1986 the Banco Popular firmly institutionalised democratization procedures by creating the 'Assembly of Working Men and Women' and making it the bank's highest decision-making forum. Representatives from across ten social and economic sectors constitute the 290-member Workers' Assembly. According Carlos Cortés, Costa Rican writer and reporter, the Workers' Assembly is the corner stone of the bank's contribution to the democratization of Costa Rica's economy, development, and financial system.

Within the Assembly, the Permanent Commission for Women holds the Assembly accountable for gender equity. Across the bank as a whole, the Banco Popular is required to have 50 percent representation of women present in all decision-making bodies. The Women's Commission holds the bank accountable to this, while building gender equity capacity and awareness. Gender equity requirements extend to local representative councils linked to the bank's nationwide branch network.

In the Banco Popular, the Board of Directors is subordinate to the Assembly. The Board is, nevertheless, where many key operational decisions are taken - so it too is democratized. The seven-member National Board of Directors is made up of three government representatives and four elected Worker's Assembly representatives.

These achievements are not taken for granted. In 2002, Costa Ricans passed a legal reform, the 'Democratization' Law (No. 8322 Ley de Democratización de las Instancias del Decisión del Banco Popular y de Desarrollo Comunal). The Law, probably unique in the world of finance, re-affirmed and further specified the social purpose, democratic ethos, and gender equity dynamics of the Workers' Assembly and the Banco Popular as an institution.

Finance for The People

The take-away lessons? Contrary to the prevailing climate finance narrative, we have (and can build) massive public bank financial capacity globally. Moreover, we have the potential to meaningfully democratize public banks via a 'People's Assembly', 'Women's Commissions' (among others), local 'Councils', and representative 'Boards'. We have here a solid starting point for debate on how to finance a just and green transition in ways that are not, first and foremost, bent to the needs of global finance, capital accumulation, and growth imperatives.

In a financialized world dominated by a powerful, unaccountable, and self-interested financial class, there will be no just or green transformation without first reclaiming financial capacity in the public, not private, interest. But it would be a grave mistake to assume that resurgent public banks, by virtue of being publicly-owned, will necessarily function in the public interest. Public banks can and do go wrong. For public banks to work in the public interest, they must be made to do so. This demands meaningful democratization. This is the action now needed.

PROBLEMATIZING THE TAX EXEMPTION IN THE MUTUAL RECESSION CONTRACTS OF LABOUR IN TURKEY

Aslıhan ÖZEL ÖZER[1] **Kayhan ÖZEL**[2]

Abstract

The termination of private-law based labor contracts has been elucidated within a stringent base of forms and conditions whether they be located within Labor Code No:4857, be it Marine Labor Code No:854; or be it the Legislation for the Press-related employer-employee relationship no:5953. Nevertheless, the theme work-related security, in the aftermath of found its place in or legal framework in the lateral stages to have proceeded as a non-existent term which legal decision makers have opted for not dealing mutual recession which gives the chance to terminate labor contract on a mutual basis, has come onto the stage and entered and consolidated into the implementation decisions of Court of Cassations in Turkey.

These kinds of contracts foresee the termination of the contract by means of the payment of payment in lieu of notice and seniority indemnity or the payment of the very identical compensation items coupled with a lump sum payment of two to eight salaries of the employees. It has long been debated about the matter whether of the payment of payment in lieu of notice and seniority indemnity items may be subject to income tax or not. The response by the expertise has been exposed such that the concerning items may be very well subject to taxation as they have not been juxtaposed within exceptional cases items put forth by the Legislation No: 192 paving the way to making of Department of Taxation's decision on the related matters and cases. However, Courts of Taxation' and council of State's have contrastingly pointed out that the payments shall not be subject to taxation as they can be considered within the exceptions given forth and juxtaposed in the Income Taxation Law, No:193, Article 61.

The Legislation No:7103 has commenced to regulate the concerning mutual recession matters upon the increasing number of related cases and clearly spelled out the required concession in regard to the matter. By means of the Legislation No: 7162's newly adding the provisional article No:189 into the Legislation No:193, the jurisdiction has granted the chance for the reimbursement of income taxation paid out of the related compensation in the period before March 7th, 2018. Given the framework above, this study strives to shed light upon the problems and remedies for the cases confronted in regard to taxation exceptions about mutual recession along with the principles discussed above.

Keywords: Mutual Recession, Work Security, Income Tax,Payment in lieu of Notice and Seniority Indemnity, Reasonable Benefit, Tax Deductions, Tax Deduction, Tax Cut

JEL Code: H24, H26, J3, K31

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1. Introduction

The very problematization in regard to whether the mutual termination of labor contract known as mutual recession shall be subject to tax or not along with other deductions has been a heated debate since its inception. According to one strand of literature, such kind of payments are in the form of the payment of payment in lieu of notice and seniority indemnity items shall be subject to income law along other related deductions that are related to Social Security Institution. Another strand of literature in the meanwhile argues that these payments are monetary compensation items due to the termination of labor contracts they shall net be subject to any regulations. Indeed, there has been a wide sense of discrepancy in the implementation of these payment in lieu of notice and seniority indemnity items from de jure and de facto practices, legal cases have come to emerge in regard to these different practices and evaluations of the law, leading to the regulation of these cases by Legislation Number 7103 and 7162.

Due to the high frequency of cases submitted to legal reviews, it becomes a necessity to put the issue under scrutiny. In such regard, this study strives to shed light upon the problems and remedies for the cases confronted in regard to taxation exceptions about mutual recession along with the principles discussed above.

2.Definition and Content of Contracts of Mutual Recession

Recession refers to the claim that an unstated theme has been mentioned literally while the term in a de jure sense refers to the fact that an existing contract comes to be terminated with the mutual consent of regarding parties (Sarı Mustaoğlu, 2011: 4). Being a term of the law of Obligations along with the fact that term is not a component of jurisdictions and the term has become a popular implementation within the private law, the mutual recession has come to function as a work security measure in the Law Number 4773 dated March 15th 2003 amending the Law Number 1475 dated June 10th 2003 Article Number 13 regulating the former regulating companies with 30 employees and the latter regulating the companies with 10 employees. The very pretext for work security can be traced back to the “Contract 158 in regard to termination of Work Contracts by Employers” by International Labor Organization that comes to be a formal part of domestic Law with the approval of the aforementioned contract by Turkish Grand National Assembly on June 9th, 1994

This remedy aiming to provide the compensatory items like payment in lieu of notice and seniority indemnity for the employees intending to leave their jobs and to grant the employers that cannot surpass several complications regarding the legal termination of labor contracts within the relevant and laws with the desire not to meet the material and non-material responsibilities due to the legal decision of courts for the return of employees back to their jobs has been a soft handed solution designed legally with the support of Court of Cassations, assuming a very important mechanism within our domestic law. The regulations put forth by the Court of Cassations see it as a necessity for the mutual recession cases such that “should the demand come from employees only payment in lieu of notice and seniority indemnity and should the demand come from employer’s extra benefits along with the aforementioned compensatory

items reasonable benefits should be granted to the affected parties (Yargıtay 9. HD. 09.11.2017 tarih ve 2016/28986 Esas, 2017/17897 Karar sayılı kararı)

The employees taking advantage of mutual recession mechanism shall not be a beneficiary of unemployment benefits along with the work security themes in the contract. Consequently, a reasonable benefit should be provided for employees. The reasonable benefits have been decided to a be lump-sum payment of four-months of his or her wages.

3. Problems Experiences in the Implementation of Mutual Recession Contracts

In the aftermath of implementation of mutual recession contract, the view of the administration has been such that the compensatory payments shall be subject to taxation after the deduction of the amount equal to payment in lieu of notice and seniority indemnity as stated in the Legislation Number 1475 as explained in the regulatory note Number GVK 94-53 dated December 15the 2010as put forth by the Income and Revenues Administration, the Tax Administration of Macro Taxpayers. The ides have been to subject the compensatory items partially

Regulation circumstances and conditions regulating payment in lieu of seniority indemnity are explicitly stated in the 14th Article. Yet when the situation boils down to the point that while behalves mutually are consenting to the termination of contract, the benefits as compensatory items shall not be considered to be payment in lieu of seniority indemnity legally. In a de jure sense a payment that cannot be deemed to be payment in lieu of seniority indemnity shall come in contradiction with the decision of the administration stating that payment in lieu of notice shall be consider as wages along with the regulation of Law Number 193 Article 25th emphasizing that payment in lieu of seniority indemnity is also inclusive in the process.

Yet the Judiciary reviews have been somewhat different in the sense that a subject of taxation for these compensatory items is not valid on the grounds that “according to the 6th article of Income and Revenues Law Number 193 wages and so-wage accepted payments are those payments arising from the fidelity of employees in exchange of their services, monetary and non-monetary in kinds yet only deductions can be realized through wage or wage-kind payments. Compensation due to the termination of contracts owing the downsizing of the firms compensation shall not be matter of subjection to taxation as these payments do not carry the characteristics of a wage and wage-related payment therefore that these payment cannot be a matter of source of taxation therefore the carried out decisions should be considered to be illegal as stated by Istanbul 5th Tax Court dated December 12th 2013 Number 2013/2099 as confirmed with the appeal decision of the Council of State Department Number 4 dated December 13th 2016 Number 4376 with the opposition of a single vote thereby indicating that the debate has come to an end and all payments in regard to the mutual recession contracts shall ne to be subject to any taxation whatsoever.

4. Legal Regulations

The court’s decision to return all the paid and directed tax payments has led the decision makers to legally regulate upon the matter and attempted to resolve the matter by the Law Number

7103, however the laws was less than capable of solving the matters in regard to the mutual recession contract problematizations.

By means of Law Number 7103 to amend some components of laws and decrees dated March 28th 2018 that amended the 61th Article of Law Number 193 such that mutual recession contract related compensatory items including loss of job compensations, termination work compensations, work security compensations shall be considered to be wages, therefore rendering the decision of the Judiciary ungrounded

On the other hand, the 21st Article of Labor Code Number 4857 compensation avoiding the return of employees to work has already underlined the need to exempt of all compensatory from taxation

In the meanwhile, The A subparagraph of the 7th paragraph remaking the 25th Article of Legislation Number 193 has maintained all regulations unchanged the amounts to be paid for payment in lieu of seniority indemnity according to the Laws Number 1475, 854 and 5953. As regulated, the ceiling for payment in lieu of seniority indemnity by Law Number 1475 and 854 shall not exceed the annually paid amount for the retirement compensation paid highest ranks of civil servant subject to Civil Servant Code Number 657. The ceilings have been indicated by the Table 1 .

Table 1. Maximum Retirement Compensation for the highest Ranks of Civil Servants (2014-2019, TL)

INTERVAL	AMOUNT
01.01.2019 - 30.06.2019 Period	*TL* 6.017,60
01.07.2018 - 31.12.2018 Period	*TL* 5.434,42
01.01.2018 - 30.06.2018 Period	*TL* 5.001,76
01.07.2017 - 31.12.2017 Period	*TL* 4.732,48
01.01.2017 - 30.06.2017 Period	*TL* 4.426,16
01.07.2016 - 31.12.2016 Period	*TL* 4.297,21
01.01.2016 - 30.06.2016 Period	*TL* 4.092,53
01.09.2015 - 31.12.2015 Period	*TL* 3.828,37
01.07.2015 - 31.08.2015 Period	*TL* 3.709,98
01.01.2015 - 30.06.2015 Period	*TL* 3.541,37
01.01.2014 - 31.12.2014 Period	*TL* 3.438,22

Source: Yaklaşım Yayıncılık, Kıdem Tazminatı Tavanı, http://www.yaklasim.com /BookList.aspx?AnnouncementId=2810&AnnouncementCategoryId=8&_ (11.01.2019)

The pre-Law Number 7103 and post Law Number 7103 tax exemption rates have been quite different. The exemption before the aforementioned law that is to say before March 28th 2018 the exemption was equal to the payment in lieu of seniority equivalent to the employer's very recent wage. Concretely speaking the pre –law regulation stipulates the TL 2000 tax cut in the case of payment of TL 6000 for the payment of lieu of seniority while the tax exemption with all added wage payments for the employees have been determined as TL 4000 under the payment of lieu of seniority in the post Law era, provided that the payment in lieu of seniority payment is TL 6000, by means of ceilings of 2018 determined around TL 5001,76, a tax cut amount of TL 998,24 will be applied. Henceforth an opportunity of payment in lieu of seniority up to seniority compensation ceiling shall be possible without a tax cut.

4.1. Exception in the Mutual Recession Contracts

The law Number 7103 regulating the Law Number 193 Article 25 Paragraph Number 1 and subparagraph 7/B underlined the need to take under payment of seniority exemption rates depending on the jurisdictions that employers are located within. In more clear words, whilst calculating the exemption rates that employees will be granted from income by the aforementioned laws mutually recessed contracts and such related mutual agreements shall be inclusive of compensatory items included in the agreements along loss job compensation, termination of work and work security compensations and henceforth deductions shall be realized over the total amount payments to be realized over the ceiling rates. All those amounts exceeding the ceiling shall be levied taxes.

The General Declaration Income Tax published in the Official Gazette Number 30448 dated June 11th 2018 as stated in the Serial Number 303/3 in case of extra compensation payments outside of the seniority payments based on the Law Number 1475 Labor Code and Law Number 857 Maritime Labor Code both payments will be paid with the deduction from ceiling rates and the rest of the amount shall be subject to taxation. In the case Law Number 5953 Press Employees and Employers Regulation popularly as known as Press Labor Code in the case of extra payment of compensation of seniority both amounts shall be added and exemptions shall be granted to the equivalent of 24-month of recent wage. The remaining rest shall be a matter of taxation. In the case of payments under different names other than the compensation of seniority and indemnity the ceiling rated of law Number 1475 and 854 and the 24-month wage equivalent of Law Number 5953 shall be taxied. Several examples have also been put forth in the Official Declaration aforementioned.

The law-makers have determined the exemption rates for the possible abuses and henceforth have implicitly accepted that these compensatory item shall be exempt from taxation

Law Number 7103 puts an end to those debates in regard to the different legal matters involving the compensations in lieu of notice and seniority and indemnity to avoid conflicts with the decisions of the courts and the administration with the objective of minimizing tax losses. Notwithstanding the mentioned law, those parties appealing for the return of taxation paid before March 28th 2018 have still the right to file and can file their cases in the Tax Courts.

4.2. Other Exemptions Granted

Under the condition that they are stated within the framework of the declaration 4b and annulled 4c-framwork public employee2 compensations of the Civil Servants Law Number 657 shall also be tax exempted along the directives of the above section's analysis

4.3. Recent Regulations

For those actions accrued out in the pre March 28th 2018 tax the Law Number 7162 dated December 30th 2019 has juxtaposed measures to deal with the existing conflicts

In the Provisional Article 86 added with the fourth article of Taxation Law Number 716 with Income and Revenue Law Number 193, it is stated as such

> "As a source all sums of income payments of taxation due to the compensations done before March 27th 2018 with the mutually-ended or mutually recessed contracts under heading of loss of work, end of work, work security related payments shall be annulled and returned upon the direct application of the behalves within the time limits indicated to the Tax Courts that have the right to direct tax and upon the waiver of the existing legal cases versus the Administration based on the corrective measures of Tax Procedure Law Number 213
>
> For the quitted cases versus the administrations, the judiciary costs and representation fees shall also be quıtted
>
> For those cases whose final verdicts have granted by courts the provision shall not apply
>
> All regulatory measures shall be applied by the Treasury Ministry and Ministry of Finance in terms of procedures and by-laws.

Ministry of Finance did the necessary regulations with the Declaration on Income and Revenue Tax dated March 15th 109 with the Serial Number 306. Accordingly a source all sums of income payments of taxation due to the compensations done before March 27th 2018 with the mutually-ended or neutrally recessed contracts under heading of loss of work, end of work, work security related payments shall be annulled and returned upon the direct application of the behalves within the time limits indicated to the Tax Courts that have the right to direct tax and upon the quittal of the existing legal cases versus the Administration based on the corrective measures of Tax Procedure Law Number 213. The procedure shall commence with the petitions of the related behalves documenting payroll documents relevant for the tax cut period and the mutually recessed agreement. It is important the employees be to have paid for the tax

In the general declaration aforementioned other compensatory measures indicated in the payroll document items taxed of the employee not having the characteristics of compensations such as normal payment, shift payment, official holiday payment, annual leave payment, transfer payments, social security premiums done for the before and existing periods shall not be a matter of tax –return

Extra compensatory measures done after March 27th 2018 shall also not be matter of tax –return with the emphasis that it will be impossible to pay the taxes charged after the specific period. Finally, taxes-returned in the aftermath of judicial deliberation shall also be returned with fines and interests levied

The time limit specified for specific corrective time lapse is essential to be noted. The corrective time lapse shall be realized according to the provisions of 114 of the Tax Procedure Law number 213 with reference to 216 in the aftermath of imposition, realization and declaration is five years. For those applications before the March 28th, 2018 not exceeding over 5 years of its commencement with deductions after January 1st 2015, it will be possible to return the levied tax without any judicial reviews

5. Conclusion

Debates surrounding the point whether payments arising from the mutual recession pf labor contract can be a matter of taxation and can be subject to taxes have been put forth since the inception of these contracts with necessary legal and academic background to be able to comprehend the nature of discussions. In such regard at initial stages tax courts have decided in favor of non-taxation of the payments due to mutual recession contracts based upon the Notion that these items are the-end of-the work compensation as indicated in 25/7 of Turkish Income Law. Appeals to tax these items have been rejected by Council of State, thereby refusing appeals of the administrations. The finalized verdict of the Council of the State led the decision makers to regulate the matter with a different legal framework and limited the exceptions by the Law Number 7103, henceforth attempting to minimize the tax losses. The upper limit of the payment in the lieu of seniority and indemnity has been accepted as an amount for the exemptions to be applied on extra payments due to mutual recession of contracts. Therefore, the stated upper limit has become a containment after which a matter of taxation can be realized through.

The expansion of judicial conflicts in the aftermath of the regulation, a new amendment of Law Number 7162 by means of 193th Article added a provisional matter paved the way of possible rebates or the payments of the contracts realized before March 27th, 2018, whose concrete procedures have been put forth by the Ministerial Discretion Number 306. The tax administration as the study argues, has attempted to minimize tax losses by redeeming the extra payments due to mutual recession and contracts i.e. End of work compensations, seniority payments taxation which are explicit ones like the wages and other payments that can be a matter of discussion into a general framework of taxation. Consequently, the problem seems to be resolved for the tax returns from the beginning of the year 2014 to March 27th 2018.

The very final state of such an implementation has to elucidated and discussed from the point of fairness and equity. The fact that items declared by the Income Law as explicitly nontaxable items were forced legally to be taxable items through a weird sense of calculation of the seniority payments by the administration to create s a sense of justice, thereby making the procreation of taxation, does not appear to be just and comprehensible. Tax-maximization should not be the sole aim of the administration. Another consideration may be such that mutual recessions not involving seniority payments shall not be compatible with the content of the law. In other words,

employers shall resort to tax the compensatory item even for those contracts not involving seniority payments.

On other view may conclude with considerations about the constitutionality of the law, thereby bringing the concerning law's creation of unconstitutional and unlawful tax. Until now no application has been made yet given the severity of discussion, the case may be taken to the Constitutional Court with high chance of the annulment of the law.

Finally, it will be the suggestion of the work that in case of taxations creating conflict between the behalves, tax courts shall come to reject the case in favor of employers.

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A CRITICAL OVERVIEW OF THE COLLECTIVE CONTRACT PAYMENTS TO UNIONIZED PUBLIC OFFICIALS

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Abstract

The subject of the study is public officials who are members of unions that are being paid collective contract payments in accordance with the law No. 4688 in Turkey. Public officials are able to seek rights through trade unions as well as other employees in an organized manner against the employer. The purpose of the study is to investigate the collective contract payments being made to the members of the unions, which are a group of interests and pressure groups, in the framework of finance theory. Is the collective contract payment a discriminatory practice for favor of public officials' unions? . Is the collective contract payment an unfair practice for favor of public officials' unions? Could the collective bargaining bonus encourage membership in the civil servants' unions and act as an indirect financing function? In the study, these questions were searched on the basis of the theory of finance, while in the context of the critical paradigm a qualitative research method was preferred and existing statistics research has been applied. The unionization rate of the public officials' unions, which had been granted the right to pay for the collective contract payment since 2010, increased from approximately 58% in 2010 to approximately 68% in 2018. It is considered that collective bargaining payments can be effective by increasing the rate of unionization. The fact that the aforementioned bonus is paid only to unionized officials appears to be problematic in terms of justice as a discriminatory practice. On the other hand, collective contract payments, which provide indirect financing, constitute a separate problem area for the unions to fulfill the function of pressure group in the defense of the economic and social rights of public employees in an independent manner and for the establishment of union consciousness. Finally, it is concluded that there is no significant theoretical basis for the collective contract bonuses included in public expenditure financed by public revenues.

Keywords: Collective Contract Payments, Pressure Groups, Trade Union, Public Finance Theory, Club Goods

JEL Code: H39, J51, J58

1. Introduction

Collective bargaining bonus payments made to the members of public officials' unions in Turkey in accordance with Law No. 4688 constitute the subject of this study. As other employees, public employees can claim their rights through unions in an organized manner against the employer. The purpose of the study is to investigate the collective bargaining bonus payments to the members of the unions, which stand as interest and pressure groups against the government in the position of employer, within the framework of finance theory.

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Is the collective bargaining bonus a discriminatory practice for the benefit of public officials' unions? Is it an unfair practice for the benefit of public officials' unions? Would it act as an indirect financing function, encouraging membership in the public officials' unions? Answering these questions is important for the effective allocation of public resources.

The methodology adopted in this report stands close to the critical paradigm. In the research, descriptive and qualitative dimension becomes prominent. In the study, 'existing statistics research', one of the unresponsive research techniques[1], was applied. Existing statistics research is seen to be classified within document reviews (Bailey, 1994: 294-301). Existing statistics research is the most appropriate method for research on issues related to data collected by large bureaucratic organizations (Neuman, 2011: 370). Even though mostly based on positivist principles, it is also used by interpretive researchers and critical researchers (Neuman, 2011: 359).

In the study, statistics in the 'Communiqué on the Number of Union Members of Public Officials' published by the Ministry of Family, Labor and Social Services and other statistics of the same institution were used.

2. Public Officials' Unions in Turkey

- In 1995, the right to establish union and bargain collectively was attained after a change in the Constitution.
- In 1997, an article was inserted in the Public Servants Law.
- In 2001, the Public Officials' Unions Law No. 4688 was issued.
- In 2006, a regulation was made on the Collective Bargaining Bonus.
- In 2010, the right for collective bargaining agreement was attained instead of collective bargaining.
- At present, the right to strike does not exist.

The president of a union which was placed among the big unions in terms of the number of members in Turkey in 2005 mentioned in an interview that there were two major problems in front of the public employees' syndicalism (Özcan, 2005: 128). It was mentioned in the interview that one of them was that public employees were not conscious of the benefits of being organized, and the other was that governments and bureaucracy had not yet accepted public syndicalism. The second problem was stated a little more clearly that the reactions of the unions caused discomfort on the part of the authorities and bureaucracy, that taking side among syndicates could be possible and that it could be possible to ask public employees to change their unions by putting pressure on them.

Inferring from the sources of the first problem expressed here goes beyond the purpose and scope of this study. However, it is possible to say that the union consciousness of a non-union public employee who does not pay any membership fee and a public employee with union membership who pays a membership fee is not the same. Nonetheless, the unionization rate of public employees in the year of interview is over 47% as seen in Table 1. This rate is not

[1] Also known as non-interventionist research strategies. See: Berg et al.

insignificant. Therefore, it can be considered that union consciousness does not increase at the same rate as unionization. At least it can be considered that the unionists think this way, because the complaining of unionists with the unionization at this rate cannot be explained otherwise. In 2005, public employees did not have the right to collectively bargain with strike. They do not have this right today either, yet on the other hand, the unionization rate is getting closer to 70%. Measuring the increase in the union awareness of public employees from 2005 till today can be the subject of another study. However, it is clear that the payments made to the unionized public employees four times a year under the name of collective bargaining bonus and the payments sometimes redeeming the union membership fees completely or almost entirely will not contribute to raising the union consciousness. When the financing comes indirectly from the public, the consciousness or need for calling to account of union members will not develop either. It is also known that the interests of persons in the goods and services that they do not pay for besides the motivation of free riding also decrease. For example, in cases where there is no obligation to attend the university education offered free of charge, even though students' tendency to attend classes is usually less, they may be more eager in attending private courses for which they pay. If it is accepted that union membership is assumed as a club good and promoted by the state, then there comes out a contradiction in terms of the rationality of the groups representing different interests. The subject of governments and bureaucracy, which is expressed as the side of the second problem in the interview, is also noteworthy. It is clear that governments do not represent the same economic interests as public employees. However, it is noteworthy that such an inference has been made by a syndicalist about the bureaucracy. What is meant by bureaucracy here can be considered to be the administrative staff, which often changes with governments. In fact, it is interesting that that is expressed that sides are taken among unions and even there are forcings for union changes shows that governments do not categorically consider unions as a subject for conflict of interest. This even reminds of a co-operation. However, it is obvious that, whatever the reasons are, the reasons pushing the governments and the unions representing the different economic interests for cooperation will prevent the proper functioning of the union system. From a different standpoint, it can be seen that the state, which intervenes in the market by regulatory means as social state, sometimes intervenes in the prices of goods and services, sometimes in the shares of the factors of production. The practice of minimum wage is one of them. While governments are pressuring the private sector on the subject of worker wages, in relation with conciousness for being a social state, such as determining the minimum wage, it is a different problematic point that public employees are expected to need or need to be organized against the same governments.

In 2018, 1,673,318 public employees were members of a union and the unionization rate was 67.65% (Ministry of Family, Labor and Social Services, 2019a). Whereas, in labor unions, 1,802,155 workers were unionized in the same year and the unionization rate was 12.76% on the basis of registered employment. Another interesting case for labor unions is that, in the statistics from January 2003 to July 2009, the number of unionized workers reached 3,232,679 people from 2,717,326 people and the unionization rate reached 59.88% from 57.98% on the aforementioned dates, however, that there were significant differences in the later period. Data for the years between were not obtained, however, the number of unionized workers, which was 1,001,671 in January 2013 on the basis of registered employment , became 1,859,038 as of January 2019

and the unionization rate rose to 13.26% from 9.21% for the same period, respectively. (Ministry of Family, Labor and Social Services, 2019b). This indicates that positive developments regarding shadow employment could have been taken place between 2009-201

Table 1. Total Numbers of Members of Public Employees' Confederations by Years

Confederation	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
KESK	262.348	295.830	297.114	264.060	234.336	-	223.460	224.413
Türkiye Kamu-Sen	329.065	385.425	343.921	316.038	327.329	-	357.841	375.990
Memur-Sen	41.871	98.146	137.937	159.154	203.851	-	314.701	376.355
BASK	1.319	5.209	5.228	4.696	4.734	-	4.226	4.976
Hür Kamu-Sen	-	-	147	100	50	-	16	11
Anadolu Kamu-Sen	-	-	-	82	38	-	-	-
Birleşik Kamu-İş	-	-	-	-	-	-	-	20.731
Hak-Sen	-	-	-	-	-	-	1.506	2.967
DESK / Çalışan-Sen	-	-	-	-	-	-	-	-
Tüm Memur-Sen	-	-	-	-	-	-	-	-
Cihan-Sen	-	-	-	-	-	-	-	-
EKSEN / Anadolu-Sen	-	-	-	-	-	-	-	-
Demokrat Kamu-Sen	39	-	-	-	-	-	-	-
USEK	352	-	-	-	-	-	-	-
Independent	15.776	4.236	3.535	3.487	9.061	-	28.647	11.629
Grand Total	650.770	788.846	787.882	747.617	779.399	-	930.397	1.017.072
Total Number of Public Servants	1.357.326	1.272.267	1.564.777	1.584.490	1.568.324	-	1.691.299	1.784.414
Unionization rate (%)	**47.94**	**62.00**	**50.35**	**47.18**	**49.70**	**-**	**55.01**	**57.00**

Table 1, Continued

Confederation	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
KESK	219.195	232.083	240.304	237.180	239.700	236.203	221.069	167.403	146.287
Türkiye Kamu-Sen	369.600	394.497	418.991	444.935	447.641	445.729	420.220	395.250	394.423
Memur-Sen	392.171	515.378	650.328	707.652	762.650	836.505	956.032	997.089	1.010.298
BASK	3.628	3.627	3.078	3.020	3.389	4.360	4.655	4.226	4.160
Hür Kamu-Sen	8	-	-	-	-	-	-	-	-
Anadolu Kamu-Sen	-	-	-	-	-	-	-	-	-
Birleşik Kamu-İş	21.731	26.422	33.477	40.041	50.503	57.365	63.990	64.248	64.730
Hak-Sen	3.060	3.499	4.016	4.072	4.482	4.187	4.276	3.253	2.876
DESK / Çalışan-Sen	2.881	4.146	4.577	4.699	5.769	5.982	5.499	4.548	4.601
Tüm Memur-Sen	-	-	-	8.047	8.681	8.338	7.835	6.531	6.102
Cihan-Sen	-	-	-	-	24.299	29.000	22.104	-	-
EKSEN / Anadolu-Sen	-	-	-	-	-	2.173	781	840	693
Demokrat Kamu-Sen	-	-	-	-	-	-	-	-	-
USEK	-	-	-	-	-	-	-	-	-
Independent	11.088	15.450	20.890	18.375	42.850	49.186	50.473	40.935	39.148
Grand Total	1.023.362	1.195.102	1.375.661	1.468.021	1.589.964	1.679.028	1.756.934	1.684.323	1.673.318
Total Number of Public Servants	1.767.737	1.874.543	2.017.978	2.134.638	2.270.558	2.354.314	2.452.249	2.431.228	2.473.461
Unionization rate (%)	**57.89**	**63.75**	**68.17**	**68.77**	**70.03**	**71.32**	**71.64**	**69.28**	**67.65**

Source: It has been prepared by us using the Communiqués on the Numbers of the Members of the Public Employees' Union.

3. Conclusion

It is seen that the unionization rate of public servants' unions, which obtained the right of payment for collective bargaining bonus in 2006, increased from approximately 49.70% in 2006 to nearly 68% in 2018. It is considered that collective bargaining bonus payments could be effective in the rate of unionization by rendering promoting effect. The fact that the aforementioned bonus is paid only to unionized public servants appears to be problematic in terms of justice as a discriminatory practice. On the other hand, collective bargaining bonus payments, which provide indirect financing, constitute a separate problem area in terms of the fact that the unions independently fulfill the function of pressure group, fitting its purpose, in the advocacy of the economic and social rights of the public employees and the establishment of union consciousness. Finally, it is concluded that there is no significant theoretical basis for the collective bargaining bonuses included in public expenditure financed by public revenues.

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EFFECT OF TAX DEBT ON PARTICIPATION TO PUBLIC PROCUREMENTS

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Abstract

In terms of public procurement, the finalised tax debt has been regulated as a barrier of participation to tenders only in Public Procurement Law no. 4734. The authority to determine the type and amount of finalised tax debt regulated as a proficiency criteria as well, has been given to the Public Procurement Authority with the Law No. 4734. While the Public Procurement Authority uses this legal authority, must obtain appropriate opinion of Revenue Administration. The finalised social security premium debt also has been regulated as a barrier of participation to tenders in Law no. 4734, therefore it is considered that the legislator had the intendment to point out the scope of the tax in a narrow sense with the phrase OF finalised tax debt. According to our opinion, tax loss fines, late fee and interests and charges regulated as types of finalised tax debt in General Notification on Public Procurement aren't not included in the scope of narrow and technical sense of tax debt. For this reason, it is considered that these regulations are contrary to Law no. 4734. In this context, it is recommended to change as a finalised receivable or overdue debt the phrase of finalised tax debt in Law no. 4734. Additionally, regulating the legal consequences of finalised tax debt in all procurement laws in the public procurement legislation will be more appropriate for equity and desired interest in terms of public budget.

Keywords: Public Procurements, Proficiency Criteria, Finalised Tax Debt, Financial Liabilities, General Notification on Public Procurement, Public Procurement Law No. 4734.

JEL Code: H57, K34, K39.

1. Introduction

In order to evaluate the bid submitted in the tender conducted with the Public Procurement Law no. 4734, tenderer natural or legal person mustn't have finalised tax debt in accordance with Turkey's or the legislation of their respective countries according to Article 10 of the said Law. Because finalised tax debt has been regulated as a *barrier of participation to tender* according to the Law no. 4734. Authorization to determine of type and amount of finalised tax debt has been given to Public Procurement Authority with the condition of the appropriate opinion of the Revenue Administration by the Law no. 4734. Pursuant to this authorization, the Public

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Procurement Authority has made some arrangements in the General Notification on Public Procurement. In this context, within the framework of the doctrine views and judicial decisions on the financial liabilities regulated in Article 73 of the Constitution, the definition of tax in narrow and wide sense has been tried to be reached. It is determined that the the narrow meaning of tax has been used with the phrase of the finalised tax debt stated in the Law no. 4734. Based on this determination, tax loss fines, late fee and interests and charges determined as finalised tax debt with the regulations of the General Notification on Public Procurement are considered to be contrary to the provisions of Law no. 4734.

2. Defining Tax Debt in the Context of Financial Liabilities

2.1. Types of Financial Liabilities

2.1.1. Tax

Tax is unrequited (Aksoy, 2010: 5; Aksoy, 2011: 142; Kaneti, 1989: 4; Yılmaz, 2018: 92); is not based on reciprocity (Aksoy, 2010: 3; Musaballı, 1978: 9; Oktar, 2019: 4). As a rule, the distinction between tax and non-tax financial liabilities is the aforementioned characteristic. It is stated that the principle of reciprocity and utilization is valid in financial liabilities other than tax (Öncel et al., 2018: 56).

2.1.2. Non-Tax Financial Liabilities

It is understood that non-tax financial liabilities were addressed with as a classification that are *share of expenditures* and *other financial liabilities,* apart from taxes, charges and duties (Kaneti, 1989: 6-8). Furthermore, it is stated that there are financial liabilities expressed in the form of *parafiscal liabilities*, *share of expenditures and goodwill* together with charges and duties in tax equivalents (Oktar, 2019**:** 5-8; Oktar, 1996/1997: 162-165).

2.2. Tax Debt

2.2.1. Tax Debt in the Narrow Sense

It is stated that the tax debt represents the amount of concrete and personal tax to be paid by the taxpayer (Neumark, 1951: 68). In the decision of the Constitutional Court, it is indicated that tax in the narrow sense refers to the taxes that everyone is obliged to

pay according to their financial power to cover public expenses[1]. These explanations constitute the scope of the tax in the narrow sense.

2.2.2. Tax Debt in the Wide Sense

According to an opinion in the doctrine, Turkish tax law covers the charges, duties and share of expenditures besides taxes in the narrow sense (Kaneti, 1989: 9). According to another view, the scope of tax law needs to be considered widely and tax equivalents and regarding penalties should be included in the scope of tax law (Mutluer & Dayanç, 2014: 14) Finally, it is also stated in the doctrine that the authorization of taxation in the wide sense, includes the authority for all kinds of financial liabilities; in this context, as well as taxes, charges, duties, goodwill and tax equivalents such as allowances and contributions paid to social security institutions and professional associations are covered by this authority (Çağan, 1982: 5).

3. Conditions of Participation in Public Tenders

When the barriers of participation in Article 10 of the Public Procurement Law no. 4734 are examined, although it is seen that ***the finalised tax debt*** is one of the elements of the proficiency principle in the tenders to be conducted in accordance with the said Law; in the State Procurement Law no. 2886 and other laws governing public procurement procedures, it is observed that tax debt hasn't been regulated as a barrier of participation to tenders.

4. Tax Debt in Public Tenders

4.1. Types and Amount of Tax Debt in Public Tenders

According to article 17.4.1. of the General Notification on Public Procurement *(GNPP),* exceeding ***5.000,00 TL*** and the following are considered as finalised tax debt[2]:

Annual income tax

Annual corporation tax

Value-added tax

Special consumption tax

Special communication tax

[1] **See,** Constitutional Court, E. 1984/9, K. 1985/4, February 18, 1985.

[2] In article 17.4.1. of the GNPP has been amendments by the Notification of Related to Making Amendment to General Notification on Public Procurement which entered into force on 01.03.2018. With the aforementioned amendments, ***motor vehicle tax,tax on games of chance, stamp tax*** and ***charges*** were included in the scope of tax debt. **See,** Official Gazette No. 30324-February 6, 2018.

Motor vehicle tax

Tax on games of chance

Stamp Tax

Banking and insurance transactions tax

Withholding and provisional taxes related to income and corporation tax

Charges

Tax loss fines for the regarding receivables mentioned above

Late fee and interests for the regarding receivables mentioned above

4.2. Characteristics of Tax Debt in Public Tenders

4.2.1. Circumstances Accepted as Finalised Tax Debt

It is seen that in the article 17.4.2. of the GNPP which circumstances will be accepted as a finalised tax debt and not.

4.2.2. Legal Consequences

As it is stated that the persons who have finalised tax debt will be excluded from the tender conducted within the scope of Law no. 4734, the bids of these tenderers shall not be taken into consideration.

5. The Issue of Contradiction of General Notification on Public Procurement to the Law No. 4734

In article 10 of the Law no. 4734, it is seen that the finalised social security premium debt has been also regulated as a barrier of participation to tender. Since the Law no. 4734 includes statement of tax debt together with statement of social security premium debt, it is concluded that the legislator aims to regulate tax in a narrow and technical sense.

5.1. Tax Loss Fines

The tax loss fine which has been regulated within the scope of the finalised tax debt in Article 17.4.1. of the GNPP isn't a financial liability specified in Article 73 of the Constitution[1]. For this reason, it is concluded that ***the regulation related tax loss fine in GNPP is contrary to the Law no. 4734.***

[1] **See,** Constitutional Court, E. 2001/3, K. 2005/4, January 6, 2005.

5.2. Late Fee and Interests

The late fee and interests which has been regulated within the scope of the finalised tax debt in Article 17.4.1. of the GNPP isn't a financial liability specified in Article 73 of the Constitution, as well[1]. For this reason,it is concluded that ***the regulation related late fee and interests in GNPP are contrary to the Law no. 4734.***

5.3. Charges

Although the charge is a financial liability specified in Article 73 of the Constitution; it is neither covered by the tax debt in a narrow and technical sense[2] nor included in tax classification by nature[3]. For this reason, it is concluded that ***the regulation related charge in GNPP is contrary to the Law no. 4734[4].***

6. Conclusion

Because of the legislator's aim was to regulate the tax in a narrow sense in Law no. 4734, it is considered that the tax loss fines, late fee and interests and charges regulated in the GNPP as a finalised tax debt are contrary to the said Law. In our opinion, the term finalised tax debt in the Law no. 4734 should be changed to ***finalised public receivables*** or ***overdue debts*** and should include the scope of tax debt in the wide sense.

Tax types for the commercial activities of tenderers such as the annual income tax, annual corporation tax, withholding and provisional taxes related to income and corporation tax, value added tax, special consumption tax, banking and insurance transactions tax, stamp tax and customs tax are must be within the scope of finalised tax debt. However, it is considered that ***all tax types that can be collected in Turkish tax*** law should be included in terms of an assessment to be made on the basis of the fact that the acceptance of the tax liability is a citizenship duty and considering tax security.

Finally, the merely law in which finalised tax debt has been regulated as a barrier of participation to tenders is the Law no. 4734. However, this situation is contrary to the equity and the desired interest in terms of public budget. Therefore, it is considered that

[1] **See,** Constitutional Court, E. 1988/7, K. 1988/27, September 21, 1988.

[2] However, in the doctrine, according to the views defending the wide meaning of the tax, the charge is included in the scope of the tax debt.

[3] **See,** Public Procurement Authority-Decision of Incompatibility, No. 2017/UH.I-28, January 1, 2017.

[4] In the court case about the amendment made to the article 17.4.1. of GNPP regarding the inclusion of charges in finalised tax debt, it was decided by the 13th Chamber of the Council of State to stop the execution of the phrase of "charges" and thereupon, a decision on *Draft About Making Amendment Notification to General Notification on Public Procurement*was taken by the Public Procurement Authority. **See,** Public Procurement Authority-Decision of Regulatory, No. 2019/DK.D-9, January 1, 2019. Pursuant to the aforementioned decision, it has been announced that the charges shall not be taken into account in the calculation of the tax debt within the scope of Article 17.4.1. of the GNPP and the the proceedings carried out by the administrations shall be established according to the decision of the said Authority. **See,** Public Procurement Authority, ***Removing "Fees" from the Extent of Tax Debt,*** *http://www.ihale.gov.tr/Duyuru/296/vergi_borcu_kapsamindan_%E2%80%9Charclarin%E2%80%9D_cikarilmasi.html.*

the legal consequences attributed to the legitimate aim of tax debt should be valid for all public procurement legislation.

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THE COURSE OF SOCIAL SECURITY SPENDING WITHIN THE PROCESS OF SOCIETY 5.0

Muhammet ŞAHİN[1] **Hamdi Furkan GÜNAY**[2]

Abstract

Technological developments have left indelible impacts on the economy all along the line. Every novel invention realized changes production processes rapidly, which concomitantly transforms social life. One of the most apparent examples of this is the First Industrial Revolution emerged in the 18th Century. Subsequent to this development which was considered as the beginning of production in the factory environment, the second industrial revolution based on automation (First half of 20th Century) and the third Industrial Revolution based on electronics (last quarter of the 20th century) were realized. Finally, the Fourth Industrial Revolution (Industry 4.0) process was initiated by Germany in 2011. In line with this process in which cyber-physical systems and robotic technologies are expected to prevail, Super-Smart Society (Society 5.0) model was developed by Japan in 2017. Both Industry 4.0 and Society 5.0 implementations are expected to have a significant impact on economic and social life and to change both labor and Welfare State practices fundamentally. It is also possible that these aforementioned developments may have an impact on social security system of the government. Likewise, the emergence of extensive unemployment condition due to robotic technologies and training for adaptation of available labor force to the new technologies may lead to redesign of the social security system. The aim of this study is to demonstrate the possible impacts of the Industry 4.0 and Society 5.0 processes on social security expenditures. The basic result obtained from the study; unemployment increase and training activities for the labor-force increases social security expenditures, but however digitalization process in Welfare State implementations may be expected to decrease social security expenditures in the long-run depending on efficiency and effectiveness increases in the government.

Keywords: Industry 4.0, Society 5.0, Welfare 4.0, Super Smart Society, Social Security Spending, Welfare State.

JEL Code: H55, O33, I38.

1. Introduction

Scientific and technological changes are rapidly transforming the production structures. Within the historical process, humanity has experienced three industrial revolutions. The first one emerged in the 18th and 19th centuries and the bases of the factory production were laid in this process (More, 2000). Second Industrial Revolution started

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to create influences beginning from the first half of the 20th century and automation based production become possible starting from these years (Atkeson & Kehoe, 2001). The process of third industrial revolution based on microchip technologies has begun since the 1960-1970s (Kaplinsky, 2005).

It is accepted that the industry model which is called as the Fourth Industrial revolution and in which cyber-physical systems and smart factory applications are dominant in production started in 2011. The model is predominantly based on robot technologies and unmanned production processes. Industry 4.0 model was reflected in the social area with Society 5.0. The main assertion of this application is to increase life quality within a social structure based on electronics.

On the other hand, it is expected that the automation process which will be generated by industry will make a change in social security expenditures of the government. The aim of this study is to determine direction and impact of the aforementioned change. Thus, the study includes possible changes in production and social structure and possible impacts of these social welfare expenditures of the government.

2. Society 5.0, a Reflection of Industry 4.0

Fourth industrial revolution (Industry 4.0) asserts to be a novel method of production. Industry 4.0 model, in which new technologies such as Internet of Things (IoT), Internet of Services (IoS), cyber-physical systems, artificial intelligence, robots, big data and cloud computing are used, represents three basic components for production processes. The first one of these is the digitalization of production and it includes information systems for production and management planning. The second component is called as the automation and includes systems for collecting and processing data from production lines. The third component which is known to be automatic data change aims to connect production areas to large scale supply chains (Roblek et. al., 2016).

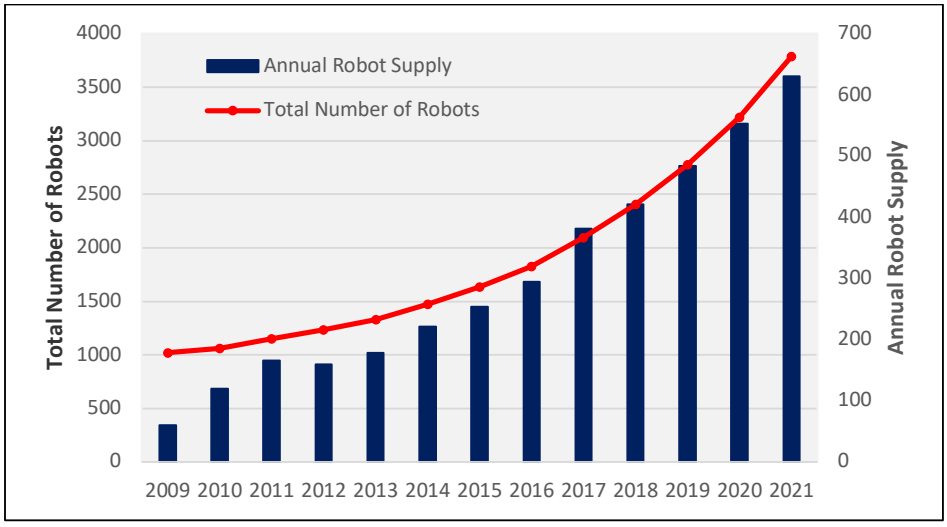
Digitalization of production processes transforms social areas. The most concrete form of this is Super Smart Society Model which is called as Society 5.0. The concept of Society 5.0 includes historical development stages of humanity so far. These are respectively; Hunter-Collective Society (Society 1.0), based on the beginning of humanity, Agricultural Society (Society 2.0) which approximately emerged in 13000 BC, Industial Society (Society 3.0) of the eighteenth century, Information Society (Society 4.0) and Super Smart Society (Society 5.0) processses. Society 5.0 applications depend on the idea that social problems will be recovered depending on electronic developments and human beings will have better life standards in the future. The basic tools of the model are artificial intelligence, robot technologies, internet of things and big data applications (Fukuyama, 2018).

3. Social Security Spending within the Process of Society 5.0

3.1. The Impact of Developments in Automation Technologies on the Employment

Society 5.0 and Industry 4.0 processes are primarily based on robotic technologies, autonomous devices and artificial intelligence applications. In case the human factor in production completely disappears, it seems inevitable that the problem of unemployment will become highly evident and as a result of this there will be an increase in social security spending of the government such as unemployment and poverty benefits. According to the researches; it is expected that job losses due to automation will exceed 35% in manual and routine tasks and literacy and social skill trainings which are considered to have the minimum level of losses will be incurring losses at a level of almost 10% (PWC, 2018: 15-18).

Graph 1. Number of Robots Used in Manufacturing Industry ('000)



Source: International Federation of Robotics, 2018.

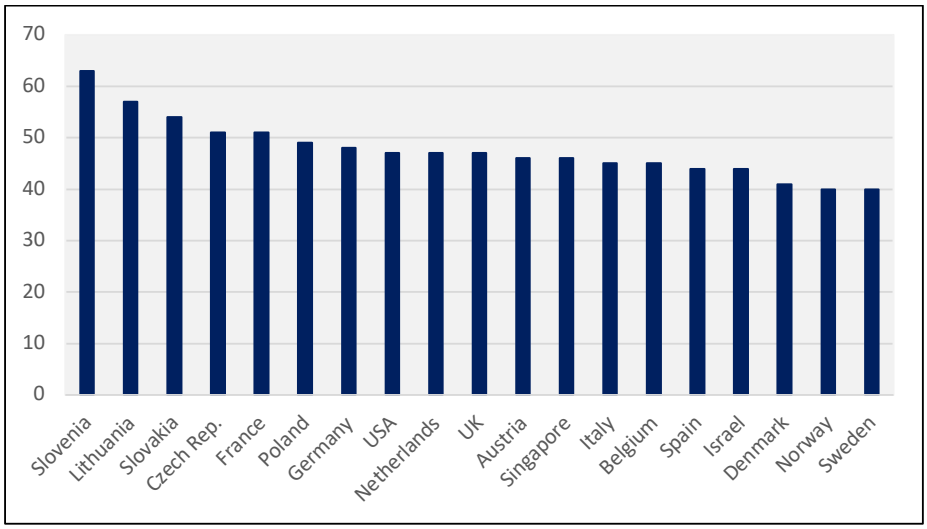
Possible contractionary impact of the technological developments on the employment may lead an increase in the social security expenditures of the government for unemployment. Past experiences reveal that there is a natural increase in unemployment benefits in years when there is an increase in unemployment. Furthermore, in case of unemployment arising due to developments in automation technologies, as the unemployment itself may become permanent, high amount of social security expenditures may also become permanent. One of the current debates on the issue is about the payments called as citizenship income (universal basic income). These payments which were primarily made in US and Canada between 1960 and 1980 are now implemented at a limited level (Lehto, 2018: 21-22). However, as a result of digitalization process in economic and social life and resulting widespread unemployment situation (McKinsey Global Institute, 2017: 2), enlarging the scope of

citizenship income payments and an increase in the amount paid per capita may be added to the agenda.

3.2. Training on Adaptation of Labor Force to New Technologies

Production level is expected to increase depending on efficiency increase generated by robotics technologies and automation-based activities becoming widespread in the economy (Herčko et. al., 2015). However, this will be possible through a good training received both by current employees and future generations in order to adapt changes in technology (Müller et. al., 2018: 7-8).. Automation process will most negatively affect individuals with low education level and have a relatively less negative effect on individuals with high education level. It is inevitable that developments in robotic technologies will transform almost every profession and depending on this it will be creating pressure on employment. However, individuals with low education level will incur the highest level of this pressure.

Graph 2. Low-Educated Persons at Risk of Losing Their Jobs (%)



Source: PWC, 2018: 32-33.

Unemployment level of those with low training levels results the necessity of vocational training for these to be implemented more actively. However, this education should not only be restricted with school. The school is the place where the basic knowledge required for the individual in both social and professional life is taught. In today's contemporary world where continuously changing technology and increasingly automated production processes are gaining importance, after-school education should also be maintained (Rath, 2017). The changing aspect of professional specialization may require more social security expenditure by public authorities for vocational training.

3.3. Welfare 4.0 Applications: Digital Transformation in Social- Welfare State

Digital transformation in economic and social structure effects governmental institutions and their way of functioning. In the background of the digitalization in the government, there are underlying motivations such as getting rid of the present cumbersome bureaucratic structure, improving service quality and improving the performance of the public sector. Digital applications are expected to improve as to generate e-welfare model in the future and to realize Welfare 4.0 applications as an extension of Industry 4.0 process (Buhr, 2017). As well as this, the impact of Welfare 4.0 applications primarily on social security expenditures has a complicated appearance and it can be expected that in case the effectiveness and efficiency as a result of the digitalization process is higher than total amount of infrastructure and staff costs of the process, it can make a positive contribution to the reduction of public sector financing burden (Buhr & Stehnken, 2018).

4. Conclusions

Application Industry 4.0 which makes a fundamental change in the production process and application Society 5.0 which is its reflection on the social area are expected to have an impact on social security spending of the government. First of all, it is estimated that robotization process in production will increase unemployment rates. As a result of this, an increase in unemployment payments of the government and widely-use of the application of citizenship income can be added to the agenda. Secondly, labor-force which is not ready to technological changes should give more importance on robotic processes adaptation training. It is possible that these training services for the workers may increase vocational training expenditures. Finally, as a follow-up of digital transformation in the government, it is projected that electronic welfare government applications will become widespread. This new model called Welfare 4.0 may increase expenditures due to infrastructure development and trained staff requirement and it is aimed to assist to decrease these aforementioned expenditures over public efficiency. Thus, in automation society of the future, it is possible to say that unemployment benefits and vocational expenditures may increase public expenditures and Welfare 4.0 applications may decrease these expenditures if carried out effectively.

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THE REGULATORY EFFECT OF PUBLIC EDUCATION EXPENDITURES ON INCOME DISTRIBUTION

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Abstract

The education system is one of the important factor which effects to development level of a country. Beside the quality of educational system, equity in access to the education is the important topic too. Equity in access to education can help to equitable income distribution, to between different income groups who live in a country.

It is stated that, nowadays inequalities on income distribution have reached very serious dimensions. It is believed that, education expenditures, which make by government, can be important tool to reduce the inequality especially inside the countries.

The aim of this study is to evaluate to general government education expenditures/Gross Domestic Product (GDP) ratios at the member countries of Organisation for Economic Co-operation and Development (OECD) where income relatively equitable distributes.

The effects of education level on a country's economy are evaluated in the first chapter of the study. It is stated that, the quality education systems have positive effects to the development levels of the countries. Information is also provided about the dimensions of income inequality in the first chapter. Additionally it is mentioned that, providing equality in access to education has probable positive effects on the income inequality.

Numerical values about general government education expenditures/GDP ratios in OECD countries where income distribution relatively more equitable (Gini coefficients are used in the measurement of income distribution in this study), are included in the second chapter. OECD data are used for both variables in this study.

When the data in the study are evaluated, it can be said that the level of public education expenditures have positive effects on income distribution in general. The equitable distribution of income in a country can be due to different reasons. However it can be said that, the education services, which are provided by government, because there are more equitable access to these services, can be used as a tool for reduce the inequality when we generally evaluation.

Keywords: Income distribution, Gini coefficient, Education, Public education expenditures

JEL Code: H52, I24

1. Introduction

Income inequality has increased notably especially since last quarter of 20th century. Income inequality not only increases between countries, but also increases between

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different income groups in the same country. Countries own income inequality is considered in this study.

Provide to equitable distribution of income between the people who live in a country; is important in point of income distribution regulatory function of fiscal policies. The policies for equitable distribution of income with fiscal policies are applied via public revenues and public expenditures.

The aim of this study is to evaluate the effects of public education expenditures on income distribution. The ratios of public education expenditures/GDP in the OECD countries, which have relatively more equitable income distribution, are examined in this study. The most actual accessible Gini coefficient (disposable income, post taxes and transfers) OECD data (2015 and 2016) are used in this study, for can evaluate about income distribution. General government education expenditures/GDP ratios are used for measure to public education expenditures/GDP ratios. The most actual accessible three-year OECD data (2013-2015) are examined in this study.

2. The Relationship of Education Level with Economies of Countries

2.1. Education Level and Economic Development

For a country's industrialization, necessary to be established a political infrastructure and a physical infrastructure. These prerequisites are known and tried to fulfill by economies, which want to be industrialize. But there is another prerequisite, which has an importance as much as these two prerequisites, effective for process of spread and develop of industrialization. This is fundamental and technical education level of the population (Yenal, 2017: 36).

It is seen that, this three fundamental prerequisites have existed since approximate 16th century in the European countries. In the transition from the Middle Ages to the New Ages, in the nation states, which replaced city states or principalities, the physical infrastructure was developed while the legal organization was strengthened. At the same time, important leaps were realized at education area in this period. Recently it has been accepted that, fundamental education is an important variable, which explains difference development speeds of underdevelopment countries (Yenal, 2017: 36-37).

2.2. Education Level and Income Inequality

Concept of income distribution means that, distribution of national income between persons or production factors. Beside to income growth, sharing of income growth between people, who live in a country, is an important subject. Income distribution is measured two ways. The first of these is functional income distribution. Functional income distribution explains that, how is shared of income which is created in a country, between wage, interest, profit and annuity groups. The second of these is personal income distribution. Personal income distribution explains that, how is shared of

income, between different population groups in a country (Eğilmez & Kumcu, 2006: 126).

The most common way to used for measurement of income distribution is the Lorenz curve, which takes account of personal income distribution, and the Gini coefficient, which based on the Lorenz curve. The Lorenz curve geometrically shows to income distribution disorder. The Gini coefficient puts forth to income distribution disorder mathematically. When the Gini coefficient approaches zero, the distribution of income is more equitable. When the Gini coefficient approaches one, the distribution of income is more inequitable. The Gini coefficient can't be bigger than one. The zero means absolute equality and there is no country in the world like this (Eğilmez, 2015: 214- 215).

The Gini coefficient is usually between 0.25 and 0.50 in the world countries. The Gini coefficient is usually low levels in the North countries, where applied social democracy, and most of the old Socialist countries (Eğilmez, 2012).

Oxford Committee for Famine Relief (Oxfam) announced that, the wealth of the world's billionaires increased by 900bn dollars in the last year alone while the wealth of the poorest half of humanity, (3.8 billion people) fell by 11% (Oxfam Briefing Paper, 2019: 28).

The income inequality has an increasing tendency in the world in general; also the level of this increase differs within the countries themselves. According to World Inequality Report 2018, while income share of the top 1% was close to 10% both in Western Europe and in the United States in 1980, it rose to 12% in Western Europe and 20% in the United States in 2016. Meanwhile, in the United States while income share of the bottom 50% was about 20% in 1980, it fell to 13% in 2016. While in Western Europe income share of the bottom 50% was about 24% in 1980, it fell to 22% in 2016 (Alvaredo, Chancel, Piketty, Saez & Zucman, 2017: 10-12).

Acemoğlu (2003) states that, in the United States inequality and skill premium were higher than in most other countries at the end of 1970s and they increased faster than the other countries. In the United States the relative skill demand increased more than the relative skill supply. This caused wage inequalities in the United States. In addition, it is states that skill premium in Europe was not as high as in the US and this was due to the more rapid increase of skill supply in the Europe (Acemoğlu, 2003: 121, 122).

Increasing the labor force supply, with high level of skill, depends on increasing of well educated population. Skill supply can be increased with more accessible educational possibilities for everybody. Thus, the negative impact of wage inequality on income distribution can be neglected (Özalp, 2018: 86-87).

In developed countries, care is given to the access to educational services of the same quality by all students. In this way, equal opportunity is provided and income distribution is improved significantly (Altınışık & Peker, 2008: 112).

Sahlberg (2018) states that, an education system in which equity is guarded and students are well educated can eliminate the effects of large scaled social and economic inequalities (Sahlberg, 2018: 82).

3. The Effects of Public Education Expenditures on Income Distribution

According to Oxfam, public expenditures have an effect to decrease to poverty and inequality. Providing services like health, education and social protection has an important role to decrease to difference between rich and poor (Oxfam Briefing Paper, 2019: 17-18).

In the OECD countries, which have lower educational resources, there are important differences to distribution of educational resources between advantaged and disadvantaged schools. Scarce resources usually concentrate to the advantaged schools. The disadvantaged schools, fall into more disadvantage condition from this reason (OECD, 2013: 107-108).

The wage inequalities lower than the other countries at the Scandinavian countries. Because they have relatively egalitarian and inclusive education systems (Piketty, 2014: 328).

Opposite of the opinions which claiming that market mechanism increasing the quality of education, these mechanisms usually cause to decomposition of the children and schools. It is accepted that in Finland, education is a public right, which providing benefits all of the society, from preschool to adulthood. It is believed that, the public schools are the best way of providing equal of opportunities in the Finland education system (Sahlberg, 2018: 84-85).

In order to be able to speak of a true equality in education, access to schools with high returns need to be equal and, more importantly, the quality of education of all schools need to be equalized. Equity of education quality of all schools can be realized only with public investments (Milanovic, 2018: 238-239).

Table 1. Income Distribution and General Government Education Expenditures in the OECD Countries

Gini Coefficient (disposable income, post taxes and transfers) 2015-2016			**General Government Education Expenditures/GDP (%) (2013-2015)**		
	2015	**2016**	**2013**	**2014**	**2015**
Slovak Republic	0,251	0,241	3,96	4,12	4,23
Slovenia	0,25	0,244	6,55	6,03	5,57
Czech Republic	0,258	0,253	5,11	5,11	4,93
Iceland	0,255	no data	7,52	7,61	7,45
Finland	0,26	0,259	6,4	6,39	6,25

Norway	0,272	0,262	4,91	5,13	5,46
Denmark	0,263	no data	6,88	7,14	7,04
Belgium	0,268	0,266	6,39	6,35	6,42
Sweden	0,278	0,282	6,57	6,59	6,53
Austria	0,276	0,284	5,04	4,97	4,96
Poland	0,292	0,284	5,27	5,26	5,21
Netherlands	0,288	0,285*	5,4	5,39	5,44
France	0,295	0,291	5,5	5,51	5,46
Germany	0,293	no data	4,28	4,24	4,2
Korea	0,295	no data	5,17	5,22	no data
Switzerland	0,296	no data	5,85	5,79	5,84
Ireland	0,297	no data	4,99	4,83	3,66
OECD Total	…	…	5,34	5,3	5,24

Sources: OECD, Dataset: Income Distribution and Poverty, (n.d.),
OECD, Dataset: Government at a Glance - 2017 Edition, Public Finance and Economics, (n.d.).
The table is created by us using data from the above sources.
*Provisional value

Public education expenditures in OECD countries, where income distribution is relatively equitable, are researched by considering Gini coefficients used in the measurement of personal income distribution, in this study. Gini coefficient data (after taxes and transfers), which belongs to 2015 and 2016, obtained from the OECD are used in the study. Public education expenditures are evaluated as OECD general government education expenditures / GDP ratios (2013-2015).

Table 1 shows that in a significant proportion of countries where the income distribution is relatively more balanced, the ratios of general government education expenditures to GDP are above the OECD average or close to the average. In Iceland and Denmark, where general government education expenditures/GDP ratios are about 7%, the Gini coefficients are about 0,25-0,26. In the other countries (Sweden, Belgium, Finland), where general government education expenditures/GDP ratios are high, the Gini coefficients are about 0,26-0,28.

According to Table 1, in some countries, which have the equitable income distribution, general government education expenditures/GDP rates are under the OECD average. There are the other factors, which affect the income distribution, except public education expenditures. Nevertheless, we can say that public education expenditures have positive effects on the income distribution in general.

4. Conclusion

Income inequality has accessed very serious dimensions since the last quarter of 20th century, especially with effects of globalization process. The income does not equitably distribute both at the different region of the world and within themselves of the countries. The public policy tools are between the solution offers, which are put forward for eliminate the income inequality. It is thought that, public expenditures and public revenues can be used as a tool for eliminate the income inequality.

In this study, the effectiveness of public education expenditures in reducing income inequality is evaluated. Gini coefficient is one of the criterions, which is used for measure the income distribution in generally. The countries under review are selected among OECD countries with a relatively lower Gini coefficient. General government education expenditures/GDP ratios in these countries are evaluated. The OECD data are used in this study.

According to the conclusion of the study is, in the countries, where the general government education expenditures/GDP ratios are above the OECD average or are close the OECD average, the income distribution is relatively more equitable. It is seen that, general government education expenditures/GDP ratios are under the OECD average in the some countries, where the income distribute relatively equitable. There are different reasons of to have equitable income distribution. Nevertheless the study aims to make a general evaluation as of the topic covered. The conclusion of this study is the education expenditures, which make by government, have positive effects on the income distribution between the people, who live in a country.

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CHILD POVERTY IN ISTANBUL: AN ANALYSIS IN THE NEIGHBORHOOD SCALE*

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Abstract

In this study, the neighborhoods determined in Istanbul will be subjected to clustering analysis with the socioeconomic data set formed and the number of children in the neighborhood scale will be estimated. At the same time, factors affecting child poverty in Istanbul and their impact coefficients will be determined by logistic regression model. Thus, the impact of the change in the factors affecting child poverty will be investigated.

Keywords: child poverty, neighborhood, index, logistic regression

JEL Code: I32, C35.

1. Introduction

In the literature, the concept of poverty is defined with different perspectives. In 1990 the World Bank to identify his "absolute poverty" and "relative poverty" was coined concepts. The situation below the level of income determined based on the minimum needs of the person to sustain life is called absolute poverty. Although biological needs were taken into consideration in the beginning, the scope of absolute poverty was expanded by taking into account the access to basic services such as education, shelter and health. (World Bank, 1990; 1995) Relative poverty is defined as the average income level of the society below the determined rate.

The concept of child poverty, which constitutes the starting point of this study, involves the deprivation of opportunities for the growth and development of children living in poverty. In addition, it is common for children growing up in poverty to be among the adult poor in the future. (Corcoran, 1995; Lichter, 1997)

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2. The Concept of Child Poverty

Child poverty has become a subject of social policy with the 19th century and it has been encouraged to prevent child poverty by the efforts of public power in this field. (Platt, 2005)

According to UNICEF's definition of child poverty in OECD countries; a child should be considered as poor if he or she is less than half of the median income that children growing up in the community may assume, when the resources are justly distributed in the family. (UNICEF, 2005)

In The State of the World's Children 2005 report, UNICEF said: "Life, growth and development of the necessary financial, spiritual and emotional resources is lack of. Children living in poverty live in a way deprived of the necessary material, spiritual and emotional resources in terms of their life, growth and development, so that they cannot benefit from their rights, they cannot fully realize their potential and they do not participate in society as full and equal members." (UNICEF, 2005)

In 2005, UNICEF published 1 million 450 thousand children and 51% of the interviewed children were deprived of at least two and more of their basic needs. While 10 percent of the children born in developing countries are poor, in the developed countries, although the rate of child poverty is low, it is another result of the study that the structural solutions for this problem have not been developed.

When the international and national statistics are examined, it is observed that child poverty is at a higher level than adult poverty. (Brooks et. al., 1997) For example, in Turkey from 2002 to 2007 under 15 years of absolute poverty, the poverty rate was higher for all individuals. Turkey between fertility and poverty when viewed in private is possible to say that there is a linear relationship. This situation is clearly observed when only the statistics are explained, the household average size increases as income decreases. Therefore, this is one of the main reasons for the rate of child poverty to be higher than the general poverty rate. (TurkStat, 2007)

Among the findings in many studies where child poverty is low, education level decreases, health conditions worsen, pregnancy is observed at a young age, substance dependence is frequent, tendency to commit crime and long-term dependence on state aid are observed. (UNICEF, 2006)

In a study on the causes of child poverty, parent unemployment, low income, lack of income support and household size have been shown to increase the risk of child poverty. (Gauthier, 1999; Bradbury et al., 2001). In the study, it was found that the family structure was important for the poverty of the household according to the size of the household, and the fact that it was one parent was found to be effective on poverty. (Gauthier, 1999)

There are some parameters frequently used in the literature to determine child poverty. Average household income, monthly household expenditure, infant and child mortality rates, low birth weight infant rates (children born to underweight), access to education, preschool education rate, schooling rate, net schooling level in primary education, child labor child poverty is tried to be estimated.

3. Empirical Analysis and Results

In a study conducted within the scope of Istanbul, Gini Coefficient was calculated considering the scale of the neighborhood and it was found as 0.405. Among the 20% of the population with the highest income in Istanbul and the lowest income with 20%, the share of the difference in income was determined as 7.7 times. 10.3 times in the comparison of the cut is indicated. In this study, how the share of income in Istanbul was analyzed. Accordingly, 5% of the population with the highest income receives 21% of the total income. The 10% share with the highest income receives one-third of the total revenue, while the 20% with the highest income has half of the total revenue. Therefore, one fifth of the people living in Istanbul receive half of the income, while the remaining 80% share the other half of the income. (Şeker, et. al.; 2017)

According to the 2018 data, the population of children aged 0-4 is 1.152.651 in Istanbul and the population below the age of 15 is 3.331.960. The percentage of children who constitute 22.1% of Istanbul's total population is in poverty is an important question. Arnavutköy, Sultanbeyli, Esenyurt, Sancaktepe and Sultangazi are among the districts where children's population is located.

In this analysis, the number of children in the neighborhood scale in the neighborhood scale in Istanbul is estimated; Factors affecting child poverty and impact factors will be determined by logistic regression model.

3.1. Methodology

In this analysis, literature review was conducted to determine the factors affecting child poverty. Commonly used variables were found in the literature; secondary data sources are referenced. At this stage, taking into account the variables of the relationship between the variables and the accessibility of variables; the variables to be included in the study were determined. In addition to this, the districts which had previously been in the village status in Istanbul and then turned into neighborhoods were excluded. Because child poverty was not directly measured, it was measured indirectly using the variables mentioned. In other words, child poverty is a latent variable. Therefore, by taking the average of the observed variables, child poverty variable is derived. Thus, child poverty scores and child poverty index were established. Since the measurement units of the variables observed at this stage were different from each other, the index score was calculated after these variables were standardized.

When the child poverty series were examined, normal distribution was investigated. At this stage, Kolmogorov-Smirnov test was used. The basic hypothesis of this test indicates that the variable is normally distributed. In this study, the basic hypothesis was not rejected at a level of 0.05 significance. In other words, the series conforms to normal distribution. The series was then categorized using mean and standard deviation. Child poverty index score was assumed to be normal in neighborhoods within a standard deviation range from the mean of the series. Neighborhoods outside this range have been categorized as poor and in good condition in terms of child poverty. Therefore, the neighborhoods examined were grouped.

When neighborhoods in Istanbul are grouped in terms of child poverty, these groups will show child poverty levels. Regression analysis will be carried out to estimate the impact of factors affecting child poverty at the neighborhood level in Istanbul. The dependent variable of this analysis will be the poverty levels obtained by clustering analysis. The regression analysis will be used to model the relationship between the qualitative dependent variable and the factors affecting it. At this stage, logistic regression model will be preferred due to the fact that the dependent variable is qualitative. The logistic regression model is also an association method within the family of regression models and is used when the dependent variable is a qualitative variable. In other words, the dependent variable in the logistic regression model carries a qualitative (categorical) variable. The method is divided into sub-types according to whether the qualitative variable in question is binary, multiple or sequential. For example; If the dependent variable has two responses, binary logistic regression is applied. In addition, sequential logistic regression analysis is preferred if there is a sort relationship between the responses of the dependent variable. The purpose of logistic regression analysis is to estimate the value of the categorically dependent variable, in fact it is the, membership index estimate for two or more groups that are attempted here. Accordingly, it can be said that one of the objectives of the analysis is to investigate the relationships between classification and the other dependent and independent variables.

In this study, the relationships between dependent and independent variables will be investigated. Logistic regression analysis does not require a linear relationship between independent and dependent variables; there may be an exponential or polynomial relationship. Logistic regression assumes a logitic relationship between dependent and independent variables; hence logistic regression can produce nonlinear models. Unlike linear regression analysis, logistic regression analysis does not require assumptions that should be met by researchers related to distribution. Therefore, it can be said that logistic regression is much more flexible than linear regression analysis. Hypothesis tests and model goodness measurements used in logistic regression analysis are similar to classical regression. Logistic regression is based on goodness of fit tests as a tool for assessing model-data compliance. Like multiple linear regression, logistic regression is highly sensitive to the high correlation between independent variables. If there is a high degree of correlation between the independent variables, multiple connection problems are encountered. If there is a multiple connection problem between the variables included in the analysis, it is recommended to remove one or more variables from the model in order to disable this problem. In the logistic regression analysis, it is necessary to avoid the least number of observations, since the highest likelihood method is used in obtaining the coefficients as opposed to the least squares method. In addition, one of the points differentiated from linear regression analysis is that the odds ratio (Odds Ratio), which is not the predicted coefficient in logistic regression model, is used in the interpretation of the model. The sign of the predicted coefficients in the model (positive or negative) indicates the direction of the relationship. The positive coefficient increases the probability of predicting, while the negative coefficient decreases (Çokluk, 2010).

3.2. Data

In this study, a demographic analysis of the neighborhoods where children live in Istanbul will be revealed. The socioeconomic outlook of the identified neighborhoods will be determined on the basis of secondary data. Thus, the relationship between the socioeconomic level of the neighborhoods and the proportion of children will be seen and the child poverty map of Istanbul will be drawn. Apart from this demographic analysis, the same data set will be established at the 699 neighborhood level in Istanbul and the factors affecting child poverty will be determined by the regression model to be established. The neighborhood scale parameters used in the analysis are as follows:

- Average size of households
- Age dependency ratio
- Household education level
- Access to health care and service quality (number of patients per doctor)
- Access to education and service quality (Number of students per teacher and classrooms)
- Sale and rental housing prices
- Demand density (Market density)
- Child Population

3.3. Results

The derived child poverty index series is categorized by using the interval method as it conforms to the normal distribution.

Table 1. Child Poverty Index - Neighborhood Segment

	Neighborhoods	Child Population (0-15 age)	Child Poverty Population/ Total Child Population (%)
High Child Poverty	96	590.651	18,1
Middle Child Poverty	500	2.320.771	71,3
Low Poverty	103	346.169	10,6
Total	699	3.257.591	100,0

The dependent variable of the regression model is the index of child poverty. The high value of this index shows that child poverty is low. As you will remember; The index series is divided into 3 categories according to the interval method. Therefore, since the dependent variable is categorical, logistic regression analysis is used from qualitative dependent models. Since the responses of the dependent variable were sequential (low,

medium, high), the model was estimated by sequential logistic regression analysis. However, it was found that the assumption of parallelism, which is one of the assumptions of the ordinal logistic regression model, was not provided. As a result, the dependent variable is re-encoded. In other words, the responses of the dependent variable; low and medium (medium + high). Binary logistic regression analysis was applied because the response level of the dependent variable became binary.

Table 2. Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Income level	,490	,109	20,063	1	,000	1,632
	Maternal education level	,921	,483	3,646	1	,005	2,513
	Average size of households	-,777	,285	7,451	1	,006	,460
	Constant	1,117	,485	5,305	1	,021	3,055

a. Variable(s) entered on step 1: Income level, Mother education level, Average size of households.

According to the results of the analysis, a one-unit increase in the income variable increases the likelihood of a decrease in child poverty by 1.6 times. The mother-child change in education level increases the probability of child poverty reduction by 2.5 times. Each unit increase in the household average size variable increases the likelihood of child poverty by 2.17 times.

4. Conclusion

In this study, the concept of child poverty was examined at the neighborhood level in Istanbul. As a result of the analyzes conducted with 699 neighborhoods in Istanbul, high level of child poverty was detected in 96 neighborhoods. On the other hand, 103 neighborhoods are neighborhoods where child poverty is very low. These analyzes of the neighborhood scale in Istanbul show that the rate of child poverty is 18% in Istanbul.

Three factors highlighted the factors affecting child poverty. Maternal education level is one of the main factors affecting child poverty. The household average size and income level are also determinants of child poverty. The higher the level of maternal education, the lower the size of households and the higher the income level, the lower the level of child poverty.

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POLITICAL POLARIZATION, INCOME INEQUALITY AND SIZE OF GOVERNMENT

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Abstract

This paper empirically investigates the determinants of political polarization. Size of government and income distribution are the main independent variables along with other controlling variables. The statistical analysis uses panel data econometric. The sample of countries includes 57 countries and time period spans between 1990 and 2015. Results of regressions analysis indicates that increased income inequality increases political polarization. Political polarization is derived from World Values Survey (WVS). It is measured as standard deviation of responses to the question "what is role for government". In addition, results of our empirical indicates that increased government size reduces the political polarization. The paper explains the links for these findings. İt concludes with some policy implications.

Keywords: Political Polarization, size of government, economics inequality

JEL Code: H50, P16,D31

1. Introduction

In recent years, political polarization in economics and political Sciences has resulted in significant political consequences because of it can affect the political decision-making processes in governments and legislative bodies (Lindqvist & Östling, 2010: 543; Campante & Hojman, 2013: 91). For example, economic performance of political polarization, fiscal policy (Lindqvist & Östling, 2010), legislative efficiency (Hacker, 2004), income inequality (McCarty vd., 2006; Meltzer & Richard 1981) and economic development (Frye, 2002) is seen to have a significant impact. In addition, political polarization may depend on the development of economic outcomes in a society, as well as on the degree of discrimination in political issues (Grechyna, 2016: 10). Polarization is closely related to social and political unrest in many developed and developing countries (Montalvo & Reynal-Querol, 2005: 301). Since the economic greatness of the state may be related to political polarization, the state can manage to minimize the friction in society by using fiscal policy tools (Lindqvist & Östling, 2010: 543).

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At the same time, political polarization has escalated to a higher level in fragmented governments or legislative bodies, in countries which poor, ethnically separated levels of trust are low, and income inequality is high (Lindqvist & Östling, 2010; Grechyna, 2016). In countries which polarization is high, the budget deficit is slightly higher than in countries where polarization is low, and economic inequality is quite large (Alt & Lassen, 2006: 541). Within the framework of these statements, it is believed that polarization (political and social) as a result of empirical research has a negative impact on government policies in general (Testa, 2012: 1104). Political polarization is linked to the existence of social unrest in general and to more conflicts in the political and social field (Estaban & Ray, 2011: 1345), as well as to the fact that there is no accepted definition in the economic literature and polarization can also be seen as the formation of clusters or groups (Akdede, 2012: 21). In this research, income distribution and the impact of the economic size of government on political polarization were investigated by using a political polarization measure based on the political preferences of citizens based on their own declarations.

2. Literature Review

In the literature, there are a few empirical studies investigating the relationship between political polarization and income inequality and the economic size of government. The main reason for this is the difficulty of defining the value of political polarization in a statistically measurable way.

McCarty et al. (2003) investigated the relationship between income inequality and partisan policies using the probit regression method using the National Election Study (NES) data for the period 1952-2000. Concluded that inequality and polarization increased in parallel.

Lindqvist and Estring (2010) examined the relationship between political polarization and the size of government. In this research, they tried to explain the relationship between political polarization and the size of the state by taking advantage of the data of 74 countries from the 1995-2005 period. They have seen that the relationship between political polarization and the size of the state is strong in countries where democratic and the size of the state is small, but in countries where antidemocratic relations are not.

Akdede (2012) empirically examined the relationship between economic inequality and political polarization and political fractionalization for 17 European countries using data from the 1980s, 1990s and 2000s. The rising inequality of income has been shown to increase the polarization of the political party and reduce the political fractionalization and the polarization of the political party has decreased by the per capita GDP.

3. Data And Regression Results

In this research, the effects of income distribution and the economic size of the government on political polarization were analyzed using the panel data method. The

study included 5-year average data from 57 countries for 1990-2015. In this research, the data set was created for 5 years because the political polarization data was organized for 5 years. The data set and model of the study were first defined before the findings obtained in the analysis. The variables used in the model are presented in Table 1.

Tablo 1. Data Set

Variable Type	Variable Name	Abbreviation	Source
Dependent Variable	Political Polarization	PP	World Values Survey
Independent Variable	Income Inequality (Gini)	GIN	World Bank
	Unemployment	UN	
	GDP	GDP	
	Government Final Consumption Expenditures	CE	
	Religious Fractionalization	RF	The Quality of Government Dataset
	Government Fractionalization	GF	World Bank's Database on Political Institutions
	Election System	ES	

Our dependent variable, which is the political polarization, is used as standard deviation. In the World Values Survey database, the measurement value calculated by the standard deviation of the survey question "government responsibility" was used (Lindqvist and Östling, 2010). The survey question "government responsibility" that we used in the study takes values measured in 1 to 10 scales. 1 "people must take more responsibility for themselves" means that they are fully involved. 10 "the government must take more responsibility for everyone," he said. Looking at the arguments used in the model; The Gini coefficient was used for income inequality and was obtained from the World Bank database. In the Gini index, 0 means perfect equality and 100 means perfect inequality. The variable of religious fractionalization in the model is derived from the "the Quality of Government Dataset" database. Gets values from 0 to 1. 0 means that there is no religious fractionalization and 1 means that there is no religious fractionalization. Government fractionalization and pluralist selection system variables were obtained from the "The World Bank's Dataset on Political Institutions" database. In order to measure the economic size of government, another independent variable, the ratio of the government's final consumption expenditures to gross domestic product was taken

into account and that variable was obtained from the World Bank database. Government fractionalization variable takes values from 0 to 1. In terms of government fractionalization, for the most part, we see more than two parties in the government for a value greater than 0.5, and as the number approaches 1, the number increases. GDP per capita, unemployment rate variables we use in our study were obtained from the World Bank database. The panel data method, which enables to the use of time series and horizontal section together, provides more information about both periods and units (Tatoğlu, 2013: 3).

The model used in the study is primarily referred to in the study Akdede (2012) and the econometric model is as follows, taking into consideration the studies of Lindqvist & Estling (2010);

$$PP_{it} = \beta_0 + \beta_1 GIN_{it} + \beta_2 UN_{it} + \beta_3 GDP_{it} + \beta_4 CE_{it} + \beta_5 RF_{it} + \beta_6 GF_{it} + \beta_7 ES_{it} + \varepsilon_{it} \quad (1)$$

In order to obtain preliminary information, descriptive statistics have been looked. The descriptive statistics for the variables in the model are given in Table 2. During the analysis period (1990-2015), the average political polarization of countries was realized at 2.78. The country with the highest political polarization is Mexico with a level of 3.6, while the country with the lowest political polarization is Pakistan with a level of 1.91. On the other hand, in the relevant period, while the lowest government consumption expenditure was in Nigeria at 1.14%, Sweden was the country with the highest consumption expenditure of 26.4%. Morocco (0.003), Turkey (0.004) and Algeria (0.009) are the first three countries to have the highest religious fractionalization, while South Africa (0.86), Australia (0.82) and the United States (0.82) are the first three countries to have the lowest religious fractionalization.

Tablo 2. Descriptive Statistics

Variable Name	Observation	Mean	Std. Dev.	Min.	Max.
Political Polarization	162	2.78	0.36	1.92	3.6
Gini	220	37.52	9.26	16.6	63.9
GDP	281	10965.27	15839.8	154.70	94151.1
Unemployment	285	9.05	6.56	0.38	35.8
Religious Fractionalization	285	0.43	0.23	0.00	0.86
Government Final Consumption Expenditures	280	15.51	5.03	1.14	26.4
Election System	278	0.61	0.17	0.05	1
Government Fractionalizaiton	278	0.30	0.27	0	0.87

Panel data results is presented in Table 3.

Tablo 3. Panel Data Results

Dependent Variable: Political Polarization		
Independent Variables	**Coefficient**	**z- Statistics**
GIN	0.0166476***	4.70
UN	-0.0016072	-0.26
GDP	-3.89e-06**	-2.24
CE	-0.015214**	-1.99
RF	-0.1353446	-1.27
GF	0.169571*	1.72
ES	-0.4250378*	-1.89
Constant	2.679892***	11.17
Number of Observations	127	
$\boldsymbol{R^2}$	0.51	
F Statistic	0.000***	
Hausman Test	0.3161	

Note: ***,**,* respectively %1, %5 ve %10 indicate significance levels.

According to the panel data, the model was statistically significant (F-test). According to the analysis results, there is a strong and positive relationship between income inequality and political polarization. GDP, government consumption expenditures, and political polarization between the electoral system are statistically significant and negative. There was a statistically significant and positive relationship between goverment fractionalization and political polarization. There is no statistically significant correlation between unemployment rate and religious diversity and political polarization.

4. Conclusion

In this research, the determinants of political polarization were empirically investigated by taking the 5-year average of the annual data of 57 countries for the 1990-2015 period. Analysis results show that the most powerful determinant of political polarization in a society is income inequality. Government consumption expenditures and per capita GDP

are seen as other important factors that reduce political polarization in one country. On the other hand, cultural differences, such as religious fractionalization, are not as important as economic factors such as income inequality, per capita GDP and government consumption expenditure.

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POVERTY, INCOME DISTRIBUTION AND SOCIAL WELFARE IN DEVELOPMENT PROCESS

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Abstract

Among the most considered topics on Turkish economy are poverty, income distribution and social benefits. It gains importance to determine the relations among the above mentioned development indicators and it is thought that this interaction should be taken into account in the fiscal and economic policies to be formed in Turkey being among the developing countries. The aim of this study is to evaluate the relationship among the rate of poverty, Gini coefficient and social benefits by using time series econometric techniques in the period of 1990-2016. The findings obtained as a result of the analysis show that the social benefits in Turkey affect the Gini coefficient in a lessening way in other words has a lessening effect on the income injustices. In addition, a statistically significant causality relation between Gini coefficient and poverty also exists.

Keywords: Development, Poverty, Income Distribution, Social Benefits.

JEL Code: O30, I30, D33, H50

1. Introduction

The developmental phenomenon, which concerns the entire society, is an important part of the economic theory which influences the structure of the national economies and thus the welfare of the people. Poverty, income distribution, and social welfare benefits were started to be perceived as political, social, and economic issues with the period of change in the world that initiated especially after 1980.

To eliminate the problem of poverty and the problem of income distribution and to provide a more prosperous life have always come to the fore in terms of public policies. Therefore, social welfare has been a very important policy tool in the hands of political powers and used by them frequently in all countries of the world. When the issue is discussed with regard to Turkey and when a series of financial-political-economic spiral experiences in the post-1980 period are considered, the determination of the relation

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between “three” arguments which are significant indicators of development is of vital importance.

In general, factors such as lack of resources, weakness in economic structures of countries and defects in their financial situations, terrorism and wars, unemployment, natural disasters, change in population structure, immigration, and economic-political crises can be considered among the causes of poverty. In this regard, “poverty index” is used as an important indicator in poverty measurement (Maxwell, 1999). Income distribution is the proportionate share of total income in an economy among economic actors. In other words, it is the amount of the share social groups receive from the national income. The degree of fairness of income distribution in an economy is determined with the help of “Gini Coefficient” (Ulusoy, 2006: 10). On the other hand, social welfare, which is one of the tools of the public sector to intervene in the economy and which is a prerequisite for being a social state, involves in-kind and financial aids which makes it possible for national income to be transferred from one social group toanother without anything in return. This can be considered as a transfer of income by formal-semi-formal and voluntary organizations to persons who have been devoid of self-support.

Towards the end of 1970s Turkey came to a deadlock in terms of economic, social, political and financial issues, which made it compulsory to make structural transformations in the economy. As a result, fundamental structural changes in economic policies were implemented in Turkey's economy in 1980. However, the instabilities and deteriorating economic balances towards the end of the 1980s continued by gaining momentum in the 1990s, and this created a number of macroeconomic problems such as poverty and imbalance in income distribution. The occurrence of this situation led to more frequent use of social welfare, which is one of the tools of fiscal policy.

In the study, the possible relationship between poverty, income distribution and social welfare in Turkey was explored. The first chapter involves discussion on the general state of the case in Turkey, which is followed by second chapter which provides samples from the country. In the third chapter, econometric methods were explained with the data set used in the study. In the fourth chapter, empirical findings obtained from the methodology were presented. In the conclusion chapter, policy recommendations were made in the light of the empirical findings.

2. Literature

In the literature, various related studies have been carried out on developed and developing countries. Kenworthy (1999) discussed fifteen industrialized countries for the period 1960-1991 as a comparison with the OLS method and reached empirical findings that social welfare spending reduced poverty. Atkinson (2000) found that the increase in transfer expenditures / GDP ratio in the context of social expenditures led to a decrease in the poverty rate of the French and British economies. Förster and D’Ercole (2005) examined the 27 OECD (Organisation for Economic Co-operation and

Development) countries in their study for the second half of the 1990s and reached empirical evidence that the improvement in income distribution reduced poverty

As for Turkey's economy, Sarisoy and Koç (2010) studied the period 2002-2007 and found in the social regression testing done that social public expenditures reduce poverty rate. Tüğen and Eroğlu (2017) studied the relationship between poverty and social spending in Turkey and indicated that social spending is extremely important for poverty reduction.

3. Data Set,Econometric Method and Findings

The data set used in this study covers the period of 1990-2016, and the social welfare/ GNP (SA) and poverty rate (POV) (Human Development Index [HDI] representing poverty was used as a proxy variable), BUMKO (General Directorate of Budget and Fiscal Control in Turkey) were gathered from the reports of UNDP's (United Nations DevelopmentProgram) and TUIK (Turkish Statistical Institute) data distribution system; The Gini coefficient (GINI) series was compiled from the official website of TUIK.

The border test technique developed by Pesaran et al. (2001) is a more effective method compared to other traditional cointegration (Engle-Granger and Johansen cointegration). Moreover, this approach allows for very strong empirical results at the point of examining the long and short term relationship. In the boundary test method, it is possible to test the cointegration relationship between variables, irrespective of whether the variables are I (0), I (1) or mutually co-integrated. Boundary test consists of two stages, firstly whether there is a cointegration relationship between variables is checked. Later, short and long term relationships are estimated by using ARDL (Autoregressive Distributed Lag) model if there is a cointegration relationship between variables (Tanrıöver and Yamak, 2015: 192).

According to ADF unit root test results; the poverty rate (POV) and Gini coefficient (GINI) were stable at the variable level, while the social welfare / GDP (SA) variable was found to be stationary at first difference. Then, it was seen that the boundary test result calculated at 1% significance level exceeded the upper limit critical value and a long term relationship was found between the variables. In the short term coefficients, the current value of the social assistance and the third delay coefficients were statistically significant at the 10% significance level. According to the approximate results; it was observed that social welfare had a negative effect on GINI coefficient and there was no statistically significant effect in poverty rate. Finally, the Toda-Yamamoto test yielded a causality relationship from the GINI variable to the POV variable at a significance level of 1%.

4. Conclusion

Poverty and income distribution, which often occupy agenda in Turkey, like in many other developing countries, are economic issues. In this regard, social welfare, which is one of the policy tools of the state, can assume important tasks in solving these problems. In this context, the study focuses on poverty, income distribution, social

welfare and their relationship with each other in Turkey in the period after 1990. For this purpose, a model was formed and econometric estimation was made by limit test.

This study aimed to determine the level of mutual interaction among "poverty", "income distribution" and "social welfare" in the period between 1990 and 2016 in Turkey. ARDL boundary test methodology was used in the study. In the period mentioned, some evidence which indicates that social welfare reduces "Gini coefficient", which optimizes income distribution in Turkey's economy. However, there were no statistically significant findings that the poverty rate decreased the Gini coefficient. On the other hand, the Toda-Yamamoto test results indicated a causality from the Gini coefficient (GINI) to the poverty rate (POV). When these findings are evaluated with regard to Turkey's economy,an optimization in income distribution may be considered to reduce poverty.

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FINANCIAL ANALYSIS OF THE POLITICAL PROPERTY OF NİZÂMÜL MÜLK

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Abstract

Turks are one of the nations with the longest state experience in history.
It is of utmost importance that this experience accumulated in every aspect of the state life is brought to light and brought to the use of present-day statesmen.
One of the main sources of this knowledge and experience are the works written by the personalities who took an important role in the state life. One of these works is "Siyasetname" bir which is written by Nizâmül Mülk , who had worked for the Great Seljuk State for many years.
This study focuses on determining the financial issues discussed by Nizâmü'l Mülk in his work Siyasetname. In the light of these findings, it is aimed to transfer the historical knowledge and experience to the present day. The importance of the study will be put forward to the extent if these information and findings are generally taken into account in general by the state and in private by finance managers. This work containsinformation constitutionally about many different areas of state life. Within the scope of the scope of the study, firstly, the sections that focus on financial issues were chosen as the research area. These sections are discussed according to the method of screening, detection, analysis, criticism and composition which are commonly used in historical researches.
At the end of the study, it was found that sultans should behave those who were under the rule of the sultans with justice in any way, those who were governed should produce the public services they need, to supervise the other officials, especially the vizier, who serve the public, and to manage the treasury and income-expense transactions on a regular basis.
The most important result of these findings is the fact that operations in the financial structure and operation sensitivity of the state look alike regarding quantity and operates on an ongoing basis although 10 centuries passed away.

Keywords: Finance, Nizâmü'l Mülk, Book of government, financial inspection, public expenditures

JEL Code: B10, H10, H30.

1. Introduction

The fact that Turks have a deep-rooted history is in line with the richness of state management. Because it is a part of the state administration. It is unthinkable that this wealth does not effect the financial management understanding. One of the most important sources where this situation can be identified are the book of governments. These artifacts have often been written by personalities worked for the state on top

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level and which were well-known for their wise character. “Siyasetname” written by Nizâmü’l Mülk, who is the founder of the Nizamiye madrasas and vouched for the Seljuk rulers for many years, is one of this kind base work. The subject of this study is the determination of the financial issues discussed in Siyasetname. It is aimed to reveal the historical knowledge and experience in this field by means of these determinations.Even 10 centuries passed years since it was written, the determinations to be made will contribute to the understanding of today's financial management. The parts of the workcontaining information in different fields related to state administration covering the financial issues will be evaluated according to the screening, detection, analysis, criticism and composition methods which are widely used in historical research.

2. Review

"Siyasetname" considered among classical monuments has been the subject of research in many respects. Kafesoğlu evaluated the criticims in this work that this monument was not written by Nizamü’l Mülk and stated based on the fact that such a monument should only written by a person who worked over long years in the government existence that this work belongs to Nizamü’l Mülk and explained which subjects were discussed in the chapters of the work (Kafesoğlu, 1955: 231-256).

Şimşir emphasized the importance of security intelligence in state life and tried to identify how security intelligence was sensed by the state understanding of the period, its importance and the tools, places, methods and officials used in security intelligence (Şimşir, 2015: 68-79).

Eşmeli propounds that this monument is a book of politics because it contains basics also valid in the present politic life, that it is a book of theory in terms of containing practical proposals, a book of history in terms of containing historical events and personalities, a memoir containing personal memories and claims that it is a constitutional text because it contains information on rights and freedoms (Eşmeli, 2016: 145).

Özmen investigated the management philosophy in Siyasetname and as a result of his work he observed that Nizâmü“l Mülk recommended to the ruler in state administration, merit, justice, honesty and consultation; recommended that officers who will work in the central and provincial bureaucracy should remain within the rules of law and that they should take into account to fulfill the duty in consciousness (Özmen, 2014: 216).

Ocak, pointed out that the religious and intellectual life of Nizâmü“l Mülk was effected together with the educational understanding of the period he has lived and by the the political power dominant during his period (Ocak, 2018: 49),

Özaydın stated that Nizâmü“l Mülk has very great services in battles, in inter-state relations, in the struggle against those who want to cause chaos in the life of society, in the settlement of the ikta system, in the field of education, in the structure of the state and in zoning services (Özaydın, 2018: 1-31).

3. General Information About Siyasetname

In order to be able to evaluate the issues discussed in the policy, it is necessary to know the author of this work, Nizâmül Mülk closely. Then, the reasons for writing such a work should be emphasized.

3.1. The Life of Nizâmü'l

Nizâmü'l Mülk was born on 10 April 1018 in the Nukan district belonging to the city Tus of Khorasan and died on 15 October 1092 in the Sıhne region near Nihavend as a result of an attack on him (Arıcı, 2005: 21). His real name was Hasan b. Ali b. İshâk b. el-Abbas etTûsî'.

Nizâmü'l Mülk mother died when he was a baby and he had a good education due to the wealth of his father. He became at young age hafiz and and learned from famous wise persons hadis knowledge (Kesik, 2018: 58). Basicly of Persian lineage Nizâmü'l Mülk functioned as Vizier for 29 years at the Great Seljuk Empire during the times of Alp Arslan (1063-1072) and Melikşah (1072-1092) (Köymen, 2018). The name of Nizâmü'l Mülk (Organization of the Government) was given him by the Abbsai Khalifa El Kâim Bi Emrillah when he was attended as Vizier by Alp Arslan (Kesik, 2018: 58).

Nizâmü suretl Mulk wrote his experiences during his 29 years of his vizier time in the "Siyasetname" and conveyed the cases that administrators should take care for the stability of the state and the peace of society by giving examples in chapters. The work was written in Persian and consists of 52 chapters (Introduction and 51 Chapters).

3.2. Reasons Why Siyasetname Was Written

The reason why and for what purpose Siyasetname has been written is plained per se by Nizâmül Mülk in the introduction part of his work.

According to this information, in 1077-78 the Great Seljuk Sultan Melikshah asked the scholars and statesmen to write their thoughts about the state and the situation of society.

In doing so, he draws attention to determine the management understanding especially ha the Seljuk rulers uze the managers of other countries in the past, to determine what are the disruptions in society and state life and what kind of solutions are offered to them (Nizâmü'l Mülk, 1990: 1-2). Upon this request, Nizâmül Mülk explained that he recorded what he knows, what he sees, what he learns from experienced managers as a service.

He pointed out that he used in his every chapters hadiths, Qur'anic verses, the words of the elders, the stories they told, and his comments to prevent them from being bored while reading during the writing of his work.

Nevertheless, he mentioned that not any manager could not without this booklet, that it has to be read especially at the time when the work was written, and that if people read this book extremely they will be more vigilant in religion and world affairs, that

they will appreciate the situation of their friends and enemies and take the necessary steps and he expresses assertively that that the life of the state and society would be much more regular (Nizâmü'l Mülk, 1990: 2-3).

4. Financial Issues Discussed in Siyasetname

Nizâmül Mülk explains in Siayasetname especially the characteristics that public officials should carry. He then reports on the tasks of these officials. It is possible to classify these tasks as administrative tasks and audit tasks.

4.1. Characteristics Public Officials have to Carry

Hierarchically, starting from the sultans, the features of the financial officers are listed.

According to Nizâmü'l Mülk a Sultan has to be clean faced, morally justified, judicious, high minded besides he has to be intelligent in riding horses and using various weapons, talentent in different arts, compassive and mercy to Allah's creations, faithful to his words, religious and respective to religious people, helpful to arm people, affectionate against low level officers and servants and he has to be relentless against the oppressors (Nizâmü'l Mülk, 2010: 13).

Further the Sultan, "Neither he has to be stingy nor he has to be a dissipative that he will bring him the name dissipator." When the time comes, he should be bestow to everyone as much as it deserves (Nizâmü'l Mülk, 2010: 345).

The Vezir hould have a good nature, and certainly has not be bad tempered (Nizâmü'l Mülk, 2010: 29).

The task of the ministry should be given to someone who is totally insincerant of trust, and this person should be aware of the events in the dervish and should explain what he knows if needed (Nizâmü'l Mülk, 2010: 83).

Attendands like Amil, Kadi, Sahne and Muhtesip should be careful in keeping with the religious provisions, who always have fear of Allah and who do not have any hatred or hostility in their hearts (Nizâmü'l Mülk, 2010: 61).

4.2. Community Services /Services Goverments Have to do

The primary duty of the Sultan is to manage the ruled with justice and to ensure the safety of those who are obedient to the state and who are engaged in their own business (Nizâmü'l Mülk, 2010: 12).

In addition, he put in order that the sultan have also very important dutys in terms of in terms of public finances: " He makes the world flourishing. He opens canals for subterranean waters; he builds beds for streams, he builds bridges for the flow of large waters, arranges settlements, makes fields suitable for cultivation, raises walls, builds new cities, builds high buildings and majestic dwellings, hosts mansions on main and

busy roads; orders the construction of madrasahs for science petitioners (Nizâmü'l Mülk, 2010: 12).

The Sultan also focuses on auditing tasks in order to ensure that financial affairs are carried out properly, and it is emphasized that those who are determined not to perform their duties properly should be punished (Nizâmü'l Mülk, 2010: 27-29)

4.3. Public Officials - Taxpayer Relations

Public revenues are one of the most important jobs in public finances. Public officials must be extremely sensitive during the execution of this task. In this respect, the issues which especially tax collectors have to observe during their duties are noteworthy: "They should be advised to be kind to Allah's servants, to postulate tributes and tithes with kindness, to nor demand goods from them as long as they do not collect their crops" (Nizâmü'l Mülk, 2010: 27).

Further the notice to ikta owners like "People who are ikta owners have no right to take anything other than the goods they are asked to collect from them" (Nizâmü'l Mülk, 2010: 41) is very meaningful.

4.4. Regulation of Public Revenues and Expenses

In this regard, it is noteworthy to emphasize that income and expenses derived from provinces should be written in sums. Because, in a sense, it tries to determine whether there is an openness within the budget framework. İn particular the following approch is a confirmation of this situation: "Endly, if someone has something to say or to make a saving his word should be respected, if he makes a justified request, the goods should be allocated. Thus, if there is an open or a deficiency in the account, it should be inspected immediately. Because this situation can not be strictly covered (Nizâmü'l Mülk, 2010: 345).

5. Conclusion

As a person who lived in the 11th century, the explanations of Nizâmü Mulk as a public servant in the financial organization of the state about the qualities especially of the sultan and the other officials under him should cover are very meaningful. It is noteworthy he expalins as a high graded manager that the sultan should have a justice-centered management understanding and that his subjects should take care to protect the law. İn the same way, he requested to pay attention to the fact that those who were in the lower levels in a hierarchical manner should have high morality and it was recommended to keep their operations under constant supervision.In the sense that the law should be treated against the taxpayers of the period as they are the sources of public revenues, in a sense, it can be shown as evidence of the care taken to the rights of the taxpayer.

As a matter of fact, it is one of the most important warnings that the sultan should be sensitive against the taxpayers' complaints about financial issues and other issues. Comparison of revenues and expenses by recording public revenues and expenditures; taking into account the objections to the records, and if the objections are right the case has to met is evocative of budgetary implementations.

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THE CURRENT SITUATION RELATED TO THE PUBLIC-PRIVATE PARTNERSHIP IN TURKEY

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Abstract

This study aims to be able to reveal the current situation related to the Public-Private Partnership in Turkey. In the study, the current status of the Public-Private Partnership in theory, literature and legislation will be determined and statistical results will be included. Within the scope of the study, the chnage in the Public Finance Approach, the effects of this approach on the Public Enterprise methods and the developments in the Public-Private Partnership will be examined. In Turkey, studies including the legislative development of the Public-Private Partnership and its recent costs and pricing features are carried out to enable the Public Expenditure Administration. As a result of these studies, it is necessary to state the evaluation and the recommendations of the Public-Private Partnership. In the Public-Private Partnership which has been tried to establish the legal infrastructure by making various legal regulations since 1980's, the increase in the number and the variety of laws and regulations related to the PPP, has caused the complexity of the legislation and the lack of a certain standard in the applications. In addition to this, cost and pricing problems, which are frequently on the agenda, are emerging. For the elimination of the legislation's complexity and for the need of efficiency, effectiveness and economy approaches in the Public Expenditure Administration, the need to establish a Framework Law related to the PPP as it has been explained in many Public Policy documents. In the study, there is a result that it has been necessary to make adequate and up-to-date legal regulations, in the context of international and Turkey.

Keywords: The Public-Private Partnership, The Public Expenditure Administration, The Public Benefit, The Legislation, The Cost, The Pricing.

JEL Code: H00, H60.

1. Introduction

In Turkey, the models such as Concession, Build-Operate and Transfer (BOT), Transfer of Operating Rights (TOR), Build and Operate (BO), Build-Lease and Transfer (BLT) are applied, at public services and public investments, related to the Public-Private Partnership (PPP). In this context, various legal regulations have been made since 1980s and the legal infrastructure of the PPP methods has been tried to be established. With these legal regulations, the increase in the number and the variety of laws and regulations related to the PPP, has caused the complexity of the legislation and the lack of a certain standard in the applications. This situation reveals the results that it has been necessary to make adequate and up-to-date legal regulations, in the context of

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international and Turkey and therefore it has been necessary to establish a Framework Law related to the PPP, as it has been explained in many Public Policy documents (T.C. Kalkınma Bakanlığı, 2015: i).

In addition, there is a need for some solutions to the problems related to the cost and the pricing in the Public-Private Partnership. For example, according to the Public Expenditure Administration, if there is a price guarantee preference in the contracts signed with the private sector companies, if the exchange rates increase, the prices in Turkish Lira increase over the payment plan. This situation causes the public loss. For this reason, comprehensive budget estimates and projections on the cost and the pricing should be taken into account in the signed contracts.

2. The Change in the Public Finance Approach and the Development of the Public-Private Partnership

Some of the developments that caused the change in the Public Finance Approach are that the borderlines between the public sector and the private sector are becoming porous and that the PPP increases. Nowadays, the PPP and competition beyond borders stand out in meeting global challenges (Kaul & Conceição, 2006: 4).

For this reason, the partnership between the public sector and the private sector and the countries and the global markets becomes important in solving problems. Therefore, while the importance of the international partnerships increases, the PPP also stands out.

Nowadays, especially as a result of the increase in the need for infrastructure investments, the difficulty of the public institutions to realize public investments with their own resources raises the search for resources and methods. The PPP is a project finance method (Şirin, 2018: 27-28).

The PPP is a mechanism to procure and implement public infrastructure and/or services using the resources and expertise of the private sector. The PPP combine the skills and resources of both the public and private sectors through sharing of risks and responsibilities. This situation enables the public sector to benefit from the expertise of the private sector, and allows the public sector to focus instead on policy, planning and regulation. In order to achieve a successful PPP, a careful analysis of the long-term development objectives and risk allocation is essential. The legal and institutional framework in the country also needs to support the PPP and provide effective governance and monitoring mechanisms for the PPP (The World Bank, 2016).

The main objective of the PPP is to increase the expertise of the public sector to identify, negotiate, manage and implement successful PPP projects. This situation is done through exchange of knowledge and experiences of the PPP by countries, including experts from public and private sectors, particularly in the identification and testing of best application. The activities will result in standards, guides on best application, studies and innovative tools that can be used in capacity-building programmes and training (UNECE, 2019).

3. The Legislation and the Public Policy Documents Related to the Public-Private Partnership in Turkey

The Legislation and Public Policy documents related to the PPP in Turkey are examined under two separate titles.

3.1. The Legislation Related to the Public-Private Partnership in Turkey

The legislation related to the PPP in Turkey is examined under two titles as the 1982 Constitution of Turkey and the Legislation related to the PPP Models.

In this context, according to Article 47 titled Nationalization and Privatization of the 1982 Constitution of Turkey, it is expressed that the private enterprises which realize services in the qualification of the public service can be nationalized in where the public benefit requires it, that the nationalization is realized with its real value, that the method and procedures for calculating the real value are regulated by the law. In addition, it is expressed that it is regulated by the law that the principles and the procedures related to the privatization of the enterprises and the assets owned by the state, the public economic enterprises and the other public legal entities. Furthermore, it is expressed that it is regulated by the law that which of the investments and the services carried out by the state and the public economic enterprises and the other public legal entities may be produced by private or legal entities or may be transferred to them (T.C. 1982 Anayasası).

Furthermore, there is many laws related to the PPP models such as Build-Operate and Transfer (BOT-Laws Numbered 3996, 3096 and 3465), Build-Lease and Transfer (BLT-Law Numbered 6428, Article 20 of Law Numbered 351), Build and Operate (BO-Law Numbered 4283), Privatization and Transfer of Operating Rights (TOR-Law Numbered 4046, Article 33 of Law Numbered 5335, Article 218/A of Law Numbered 4458) and Concession (Laws Numbered 4483, 4501 and 406 (T.C. Kalkınma Bakanlığı, 2018: 23).

3.2. The Public Policy Documents Related to the Public-Private Partnership in Turkey

The Public Policy documents related to the PPP in Turkey are expressed as The Tenth Development Plan: 2014-2018, The Investment Program Preparation Guide of 2019, The New Economic Program (NEP) Equilibration-Discipline-Change 2019-2021: The Medium Term Program.

In The Tenth Development Plan: 2014-2018, it is explained that (T.C. Kalkınma Bakanlığı, 2013);

- in addition to public resources, legal regulations have been made for the realization of health investments by the PPP method (in Article 168 titled Health),
- alternative finance and operating models, especially the PPP, will be implemented in the construction and operation of sports facilities (in Article 340 titled Policies),
- in meeting of Turkey's growing infrastructure needs, the use of alternative finance models with the participation of the private sector is required as well as the use of public

resources, furthermore, the need for the development of the institutional capacity of the public institutions based on expertise in the project planning and administration processes related to the PPP is important (in Articles 581 and 582 titled Public Investments),
- in public investments, it will be given priority to education, health, drinking water and sewage, science-technology, transportation and irrigation sectors, including projects related to the PPP (in Article 589 titled Public Investments),

- a strategy document related to the PPP will be prepared and the PPP legislation will be established in the form of a Framework Law (in Article 594 titled Public Investments),

- the coordination of policies and the applications related to the PPP will be strengthened and an effective monitoring and evaluation system that will measure the risks and impacts of projects on the budget will be established (in Article 595 titled Public Investments),

- it will be ensured that local technical consultancy companies will operate more effectively in all production processes of construction sector and in areas such as the PPP projects and urban transformation (in Article 886 titled Construction, Engineering-Architecture, Technical Consultancy and Contracting Services).

In The Investment Program Preparation Guide of 2019 and under the title Priorities of Public Investment Policy For 2019-2021 Period, it is explained that (TCCSBB, 2018a);

- public infrastructure investments will be planned and carried out in the form of to support the reduction of the production costs in the private sector, the formation of new production capacities and thus the innovative and competitive development of the production, it will be given priority to the use of domestic goods in public investments, including projects related to the PPP (in Article 10 titled General Priorities),
- it will be taken care to the use of the PPP, especially in critical and major public infrastructure projects requiring advanced technology or high financial resources, taking into account the cost effectiveness (in Article 11 titled General Priorities),
- it will be given priority to education, health, drinking water and sewage, science-technology, transportation, energy and irrigation sectors, including projects related to the PPP in public investment allocations for 2019-2021 Period (in Article 15 titled Sectoral Priorities),

In The New Economic Program (NEP) Equilibration-Discipline-Change 2019-2021: The Medium Term Program, it is explained that it is aimed to establish a framework for more effective and financially efficient PPP applications and to ensure these applications being integrated in this context (TCHMB, 2018).

4. The Applications Related to the Public-Private Partnership in Turkey

As in the world, also in Turkey since the 1980's, the number of the PPP, which is applied primarily in infrastructure then in the health sector, is increasing in various sectors related to the public sector projects. The analysis of the distribution of the PPP by sectors

and models will make an important contribution to examine the diversity and alternatives of the PPP in the Public Expenditure Administration applications.

When the distribution by sectors of the PPP in Turkey is examined, it is seen that the PPP has been first in the distribution by sectors, as project number, with 89 projects in the energy sector, has been second with 42 projects in the road sector and has been third with 22 projects in the port sector. When the distribution by models of the PPP in Turkey is examined, it is seen that BOT has been first in the distribution by models, as project number, with 108 projects, TOR has been second with 104 projects and BLT has been third with 21 projects (TCCSBB, 2018b).

When the contribution of the PPP in public projects is considered, the importance of the legislation change and the renewal of the contracts in terms of cost and pricing is seen.

The PPP is generally used in both developed and emerging countries. At the United Nations Conference on Trade and Development (UNCTAD), the importance of the realization and meeting of the Sustainable Development Goals by partnerships was stated by determining the 17th Development Goal as “Partnerships for the Goals”. The PPP has been also generally considered as a part of this Goal. In this context, it is understood that the PPP will be used more widely in underdeveloped and emerging countries for the funds it will provide in addition to public investments and for the efficiency and effectiveness it will provide. The findings, evaluations and recommendations related to the PPP in Turkey, which is applied since the 1980’s and seen increase in its applications since the 2000’s, are stated as follows (T.C. Kalkınma Bakanlığı, 2018: 56-57):

- in the next years, the PPP is expected to be used more widely in the transport and health sectors as well as in the small scale projects related to the urban infrastructure (for example such as solid waste, waste water),

- the current PPP legislation needs to be reregulated in a form of ensure the application of different models in different sectors and to respond to needs,

- the need for the project is increasing both in the world and in Turkey. The competition of the private sector for finance sources related to the projects is increasing. This situation increases the importance of the project prioritization which enables finance resources to be used in the strategic projects,

- the most important elements of a successful PPP project are stated as the effective procurement process, the effective administration of the risk sharing and transfer, the effective determination of outputs and expectations, the affordability, the return on expenditure and the effective contract administration and payment mechanism. A thorough and rigorous project preparation is required for the effective application of all these elements. In this context, the economic benefits of the projects, the obligations they will bring and their possible risks will be determined and thus, an efficient procurement and contract administration process will be ensured with the minimazation of the uncertainties. An effective monitoring and evaluation process will make an important contribution to the improvement of the PPP as well as the success of the project,

- it will be beneficial to create application manuals on the PPP, to increase the capacities of the institutions in the application process, to evaluate alternative finance methods in case of financial difficulties, and to complete the technical and legal infrastructure for this purpose.

5. Conclusion

When the results obtained within the scope of the study are examined; nowadays, as in the world, also in Turkey, important processes have been carried in the PPP in the context of the Public Expenditure Administration applications. New methods and suggestions to be produced by taking into account the principles of efficiency, effectiveness and economy in the Public Expenditure Administration and providing the public benefit can make important contributions in this field. The new legislation studies on the PPP and the measures about the cost and the pricing will also make important contributions to prevent the public loss. Therefore, in order to establish effective public policies, a comprehensive budget estimate and projection on the cost and the pricing is required in the contracts related to the Public Expenditure Administration applications. Thus, as in the budget preferences and priorities, the PPP can be effectively applied by integrated legislation and the contracts effectively prepared, also in the Public Expenditure Administration applications. Consequently, the public choices will also contribute to the formation of rational and effective results in the public policies.

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REGIONAL INEQUALITIES IN EUROPEAN UNION AND POTENTIAL IMPACTS OF EUROPEAN UNION MEMBERSHIP PROCESS ON REGIONAL DISPARITIES IN TURKEY*

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Abstract

Although the European Union contains many developed countries, it is a union which experiences various problems originating from regional differences. After each enlargement process, less developed countries which have significant regional disparities joined the Union. In parallel with these enlargements, regional inequalities became a greater issue, and it was required to address regional policies once again. The European Union attaches great importance on reducing regional inequalities. In order to reduce these inequalities, various funds are provided and numerous projects are carried out. However, regional inequalities continue and in some instances, it is observed that regional disparities even increase despite the attempts aimed at regional development. Following the officially recognition as a candidate for full membership, Turkey brought various regulations into effect in line with European regional policies and addressed regional problems more intensely. Even though Turkey started to put emphasis on regional policies, regional disparities become more apparent in the last years. Within the scope of this framework, how regional disparities change in the European Union member states will be investigated first. In the light of these examples, this study aims to anticipate the impacts of Turkey's accession process and possible membership to the Union. The analysis results show that not all countries benefit from the European Union considerably. Even in instances that are observed positive impacts in general economic situation, regional differences might increase. It is considered that Turkey will experience both positive and negative effects in this accession process.

Keywords: Regional Development, Regional Disparities, Regional Policy, European Union
JEL Code: R11, R58

1. Introduction

European Union (EU) consists of various countries and keeps on expanding by way of the accession of new member states. This is why the EU has more extensive regional problems than Turkey. Just like terror in Turkey, the EU has its own regional problems. However, putting aside the EU's requirements of cross-border cooperation and Turkey's terror problem, one might say that the EU and Turkey are experiencing similar issues. These problems are the presence of under-developed rural areas and overcrowded areas and the decline in basic industries observed in certain areas. Turkey's EU candidacy and starting of the regulations required by the harmonization process will assimilate

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Turkey's approach systematics to these common problems with the EU. In this regard, the changes experienced by the countries after becoming members of the EU and the results created by the EU's regional policies are critical in predicting what Turkey might experience in the future. To make these evaluations, the study will analyze the changes in general and regional development experienced by the EU members.

2. Regional Problems in the EU

Just as in many countries, the countries in the EU are currently facing regional development problems. This problem, which used to be the countries' domestic affairs, took on a completely new dimension after the establishment of the EU. There are significant regional inequalities within the borders of the EU members and between each other. These regional problems in the EU can be handled under four headings; under-developed rural areas, decline of basic industries, congested areas and frontier areas (Hitiris, 2003: 226-230).

According to the OECD definitions, the majority of the EU consists of rural or moderately rural areas; in fact, in most of the Eastern European countries, only the capitals are characterized as urban areas (European Commission, 2008: 5). Even though there are examples such as the Netherlands that carry out agricultural production with high added value, the production in under-developed rural areas where production and employment is dependent on agriculture is carried out on infertile land, devoid of advanced technology and with a labor-intensive system.

The aggregation of some sectors in certain regions for historical and economic reasons can be observed very often. However, in time, these regions can go through a transformation process called "deindustrialization" caused by the decline in industrial capacity or activities (Skuflic ve Druzic, 2016: 993). It can be said that the iron-steel, textiles, shipbuilding, coal and chemical industries in Europe have shifted towards regions outside of Europe with low labor costs. It is also worth mentioning that the labor demand in regions with labor-intensive production is decreasing due to the decrease in demand to certain goods, increase in mechanization after technological developments and mineral resource depletion (Hitiris, 2003: 228).

Just like how the undeveloped regions become desolated through emigration, there are also problems brought forward by the capital accumulation and areas of specific population density. Agglomeration of economic activities in certain cities cause traffic, environment and noise pollution, congestion and similar urban problems. While overcrowded cities grow by drawing resources from other regions, this growth gradually turns into an unplanned growth and causes the current infrastructure to fall short. Even though the agglomeration may cause positive externalities in certain regions, the transformation of this situation to over-density causes negative externalities.

In addition to the urban problems caused by the companies and population clustering in certain regions, there are other points that need to be considered. Construction of houses, hospitals, schools, roads etc. in congested regions is much more expensive compared to the regions with less density. While congested regions draw resources to

themselves, this causes the projects to become more costly. Considering the economic aspect, it may also cause the inability to reach the potential welfare (Holland, 1976: 3).

The expectation that the production factors will be more mobilized among neighboring countries and more economic relations and trading will be established between the member countries is one of the most influential considerations in the establishment of the EU. However, the fact that there are no cross-border infrastructures adjoining the previously-separated nation states causes the inability to see the desired development within the borders of the EU. Another problem is the fact that the trading activities in the regions surrounding the Union and geographically setting the borders of the EU are shifting towards more central regions with the emergence of the single market (Hitiris, 2003: 229-230). The least developed countries in the Union and the least developed regions of the member states are located in the outer regions of EU goes to show that the external border regions are experiencing economic problems.

Another problem encountered in the external border regions of the Union is the shift of the productive population in these regions towards other countries in the Union. This is caused by the economic activities being directed towards the center of the Union and the removal of the obstacles in front of population movements being removed with EU membership. According to the OECD statistics in 2014, the rates for population living outside of their countries is 17.5% in Ireland, 14% in Portugal and 6.6% in Greece. This rate was determined as 4.4% for Turkey in 2014. It is also known that there is an increasing trend of brain drain from our country within the last few years. According to the International Migration Report published by TÜİK, the number of people that emigrated from Turkey showed a significant increase of 42.5% between 2016 and 2017.

3. Regional Development Efforts in Turkey and the EU

The biggest project created by Turkey to solve the regional issues and invigorate the national economy is the Southeastern Anatolia Project (GAP). The first steps for GAP were taken in the 1970s with the irrigation and hydroelectric projects started in Euphrates and Tigris rivers. In 1989, GAP turned into a multi-sector, socio-economic development project. Compared to its equivalents in the world in terms of the geographic area, physical dimensions and goals, GAP emerges as an ambitious project (Ersungur, 2016: 322-323). However, the fact that this project was unable to reach full activity for many years caused the expectations to be left unfulfilled and the desired results were not obtained. In addition to the GAP project, created to ensure the development of Southeastern Anatolia, other projects were created for other regions of Turkey that rank low in terms of development, with the most significant ones being the Eastern Anatolia Project (DAP) and the Eastern Black Sea Project (DOKAP).

In addition to the development projects carried out by Turkey with its own efforts, there are other regional development and cross-border cooperation programs conducted within the scope of the financial cooperation between Turkey and the EU. The projects are as follows (Kılınç Savrul, 2012: 356-368; Dinler, 2014: 243-244):

- Eastern Anatolia Development Program in Bitlis, Muş, Hakkâri and Van

- TR82, TR83 and TRA1 Level-2 Regional Development Program,
- TRA2, TR72, TR52 and TRB1 Level-2 Regional Development Program,
- TR90 Level-2 Regional Development Program,
- GAP Regional Development Program,
- Joint Operational Program Black Sea Basin,
- Bulgaria-Turkey IPA Cross-Border Cooperation Program.

Turkey's candidacy in the EU has brought together a transformation that will cause the regional policies post-2000 to be separated from the periods before. This transition has especially shown itself in the ensuring of corporate structuring, subjecting policies and resources to certain criteria and local actors being more active in regional development projects. As a part of this change, the Regional Development Agencies (RDAs) are key organizations that have important roles in the application of the new regional development policies replacing the former regional development policies aiming for infrastructure and industrialization and instead aiming for information technologies, innovation, human capital and increase of competitiveness.

The first RDAs established in Europe after World War II were established in the 1950s in Austria, Belgium, France and Ireland. These countries were followed by Germany, the Netherlands, Italy and England in the 1960s and by Denmark, Finland, Greece and Spain in the 1980s (Özen, 2005: 4). The biggest reason for the status of the RDAs as widespread and important organizations in our country and the EU members countries is that the use of EU funds is made through the programs established by the RDAs. The EU's financial and technical assistance was benefited from in the establishment of these agencies in the 1990s in countries such as Sweden, Portugal, Poland and Slovakia (Meriç and Can, 2011: 188). Establishment of RDAs in all Level-2 regions of Turkey was completed in 2009, making Turkey one of the countries with the latest RDA structuring.

The number of projects the EU has conducted through the RDAs and supported within the scope of the regional development programs can be expressed in hundreds of thousands. Even though it is hard to specify all of these projects, it can be noted that 380 programs financed through structural funds between 2014 and 2020 in 209 regions of 28 member countries. The EU member state that benefits the most from the funds and investments is Poland with 77.5 billion euros. Poland is respectively followed by Italy, Spain, Romania and Czechia. The top ten regions receiving the most financial support are as follows: Slaskie (Poland), Hrvatska (Crotia is a region of its own), Norte (Portugal), Mazowieckie (Poland), Lietuva (Lithuania is a region of its own), Malopolskie (Poland), Andalucía (Spain), Wielkopolskie (Poland), Sicilia (Italy) and Campania (Italy).[1]

One of the most significant features of the EU programs is that the priorities and expectations are stated rather clearly. For example, the "Infrastructure and Environment Operational Program" in Poland, the biggest program of the 2014-2020 period, redirects about 64% of the allocated resources to transportation infrastructure, 15% to low carbon economy and more than 12% to climate change, risk aversion, management and environmental protection. In return for these fund flows, the

[1] These numbers and information were obtained from the statistics collected from the SFC2014 database on http://s3platform.jrc.ec.europa.eu/esif-viewer (Date accessed: 20.02.2019)

expectations include increasing the share of renewable energy in total energy consumption to 15%, decreasing greenhouse gas emission by 20.6% compared to the level in 1990 and decreasing the travel times for trains and highways between big cities to 3.7 hours. Other examples of the big programs currently ongoing within the EU are the "Large Infrastructure Operational Program" in Romania, "Smart Growth Operational Program" in Poland, "Economic Development and Innovation Operational Program" in Hungary.[1]

4. Results of the EU's Regional Policies and Turkey

The efforts of development in Turkey and the EU aim to have under-developed regions advance and decrease the imbalances between the regions by providing support in different areas. In line with this purpose, the EU provides high amounts of support to both the member states and the countries with membership potential. Benefiting from the EU funds, Turkey also allocated resources from its national budget and focused on this goal even more in the period after the year 2000. However, in spite of the positive results obtained in Turkey and the EU, there are negative ones as well.

When we look at the EU countries, we can see that France, one of the founding countries, is much less wealthier compared to 1991. This situation is even more problematic in Italy. Even though it managed to display rapid convergence up to the 2008 Crisis, Spain, joining the Union later on, has struggled to recover after this period. Those who benefited the most from the transition to the Common Market have been small yet already rich countries such as Denmark, Austria and the Netherlands. Countries such as Sweden, Finland and Belgium have also prospered compared to the EU-15 average. In this process, those who suffered the most have been Italy, followed by Portugal and Greece. In the following period, it is predicted that the welfare in Italy and France, two of the biggest economies in the EU, will continue to shrink and the gap between Germany and other rich economies will be even wider. Countries in Eastern Europe are expected to continue their convergence with the other economies (Tilford, 2017). Therefore, it is difficult to speak of a convergence or divergence within the EU covering every region and period.

The GDP values and change rates per capita of the five EU members in NUTS Level-2 regions are summarized in ANNEX 1. In addition to Spain and Italy, who have a scale and socio-economic structure that can be compared with Turkey and have been implementing EU's regional policies for many years, countries of Hungary, Poland and Czechia that joined the EU with the expansion in 2004 are also included in this table. When we compare the values in 2007 and 2016, we can see that the GDP per capita in Italy and Spain have increased at very small rates; however, the three relatively-new members of the Union have scored significant increases within a 10-year period. Benefiting the most from the EU funds, the high GDP per capita increase of 35.4% in Poland is especially interesting. This increase was respectively 24.6% and 13.7% in

[1] http://ec.europa.eu/regional_policy/en/atlas/programmes/ (Date accessed: 20.02.2019)

Czechia and Hungary, which joined the EU in the same year as Poland and are relatively smaller.

When we look at the statistics of the five countries, it can be observed that the countries that joined the EU later on scored more positive results in terms of general and regional economic growth. Even though they have been benefiting from the EU funds for longer periods of time, the economic crises of Spain and Italy are rather apparent in the statistics. The fact that these two countries showed decline instead of advancement in the regions is thought-provoking, considering the amounts spent for the EU's regional policies. In some cases, the works carried out for the development of a certain region prevents the development of the other ones by causing their resources to be drawn to that region and creating "backwash effect".

5. Conclusion

Even though Turkey realized mega projects such as GAP to solve its significant regional differences, it is still unable to prevent the increase in regional disparities. One of the biggest reasons for this increase is that a systematic and consistent approach could not be established for regional problems. Going through a transformation in its regional policies after its candidacy to the EU becoming official, Turkey has started to carry out regulations in line with the EU. Starting with the foundation of the development agencies, the initiation of the institutionalization and systematic regional policy implementations lacked in Turkey is one of the positive results brought to Turkey by the EU candidacy. However, the internal results of the policies vary, just like the results in the EU. It is predicted that the EU membership process and a potential EU membership will have rather variable effects on Turkey. When we look at the EU, we can see that the economic activities keep shifting from geographically peripheral regions towards the center and the countries far from the center of the Union are losing qualified labor force and capital. Considering the continuous increase in brain drain, it is highly possible that the removal of the boundaries between the EU and Turkey will create similar results for Turkey. While significant advances can be observed in the economies of the countries that joined the EU with the latest expansions, it is also apparent that most of them are experiencing increasing regional inequalities. Since Turkey's full membership to the EU will allow new EU funds to enter the country and the foreign capital to increase, there can be improvements in the general economic indicators. However, the fact that the regional differences experienced by the countries that joined the EU with the latest expansions are becoming even more apparent will most likely cause even worse results in Turkey, which is already experiencing significant imbalances between metropolitan and non-metropolitan areas.

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ANNEX-1 : Regional GDP changes of five EU member states (Euro) (Source: SFC2014 database).

	2007	2016	%
Polond	**8200**	**11100**	**35,4**
Region Centralny	11100	15300	37,8
Lódzkie	7600	10400	36,8
Mazowieckie	12800	17600	37,5
Poludniowy	8100	10900	34,6
Malopolskie	7300	10100	38,4
Slaskie	8700	11500	32,2
Wschodni	6000	7800	30,0
Lubelskie	5700	7600	33,3
Podkarpackie	5800	7800	34,5
Swietokrzyskie	6500	7900	21,5
Podlaskie	6100	7900	29,5
Pólnocno-Zachodni	8100	10900	34,6
Wielkopolskie	8700	12100	39,1
Zachodniopomorskie	7300	9300	27,4
Lubuskie	7300	9300	27,4
Poludniowo-Zachodni	8400	11400	35,7
Dolnoslaskie	9000	12300	36,7
Opolskie	6900	8900	29,0
Pólnocny	7200	9400	30,6
Kujawsko-Pomorskie	7100	9100	28,2
Warminsko-Mazurskie	6100	7900	29,5
Pomorskie	8100	10700	32,1
Italy	**27400**	**27700**	**1,1**
Nord-Ovest	33100	34100	3,0

	2007	2016	%
Spain	**23900**	**24100**	**0,8**
Noroeste	21000	21400	1,9
Galicia	20500	21500	4,9
Principado de Asturias	21800	20900	-4,1
Cantabria	22400	21600	-3,6
Noreste	28600	29400	2,8
País Vasco	30300	31800	5,0
CF de Navarra	29500	30000	1,7
La Rioja	25500	25300	-0,8
Aragón	26100	26100	0,0
C. de Madrid	31600	32800	3,8
Centro (ES)	19900	20100	1,0
Castilla y León	22100	22700	2,7
Castilla-la Mancha	19300	18800	-2,6
Extremadura	16100	16600	3,1
Este	25500	25700	0,8
Cataluña	28100	28800	2,5
C. Valenciana	21600	21200	-1,9
Illes Balears	25500	25100	-1,6
Sur (ES)	18700	18100	-3,2
Andalucía	18500	17800	-3,8
Región de Murcia	19900	19900	0,0
CA de Ceuta	20400	19200	-5,9
CA de Melilla	19400	17600	-9,3
Canarias	21200	19800	-6,6

	2007	2016	%
Piemonte	29700	29400	-1,0
Valle d'Aosta	34700	34900	0,6
Liguria	30400	30800	1,3
Lombardia	35100	36600	4,3
Nord-Est	32100	33300	3,7
PA di Bolzano	36700	42600	16,1
PA di Trento	34000	35000	2,9
Veneto	30800	31700	2,9
Friuli-Venezia Giulia	29900	30300	1,3
Emilia-Romagna	33400	34600	3,6
Centro (IT)	31100	29900	-3,9
Toscana	28900	30000	3,8
Umbria	26200	24000	-8,4
Marche	27200	26600	-2,2
Lazio	34500	31600	-8,4
Sud	18400	18600	1,1
Abruzzo	23100	24100	4,3
Molise	21700	20000	-7,8
Campania	18200	18300	0,5
Puglia	17500	17800	1,7
Basilicata	19800	20600	4,0
Calabria	16800	16800	0,0
Isole	18500	17900	-3,2
Sicilia	18000	17200	-4,4
Sardegna	20000	20300	1,5

	2007	2016	%
Hungary	**10200**	**11600**	**13,7**
Közép-Magyarország	16900	17600	4,1
Dunántúl	8700	10500	20,7
Közép-Dunántúl	9400	11000	17,0
Nyugat-Dunántúl	9900	12700	28,3
Dél-Dunántúl	6800	7600	11,8
Alföld és Észak	6500	7800	20,0
Észak-Magyarország	6500	7700	18,5
Észak-Alföld	6400	7400	15,6
Dél-Alföld	6700	8300	23,9
Czechia	**13400**	**16700**	**24,6**
Praha	29100	34700	19,2
Střední Cechy	12600	15300	21,4
Jihozápad	11900	14700	23,5
Severozápad	10400	12000	15,4
Severovýchod	11100	13800	24,3
Jihovýchod	11800	15400	30,5
Střední Morava	10300	13600	32,0
Moravskoslezsko	11100	14300	28,8

ECONOMIC REGULATION AS A REQUIREMENT FOR ECONOMIC EFFICIENCY: THE ASSESSMENT OF TURKEY

Ali Fuat URUŞ[1]

Abstract

Macroeconomic priorities of today's states are efficiency in resource allocation, economic stability and development. For these purposes, the state assumes the role of regulator. By means of economic regulation arising from the need for economic efficiency, the state prevents the monopolization and market inefficiency by creating the legal framework of competition in order to ensure and preserve the free competition in the markets. It also assures the continuity of competition in the market economy by using control,audit and sanction mechanisms. The purpose of this study is to put forth the conceptual dimensions of economic regulation and its application in Turkey as a general outline within the framework of economic efficiency. For this aim, a literature review and some evaluations were made. Considering the economic regulation practices in Turkey, it was found to have shortcomings on issues such as in-market competition, pricing and costs at the point of ensuring the economic efficiency and competitiveness in the market. It is important to design a system to achieve public benefit through relevant regulation institutions in the markets such as finance, capital, banking, energy, telecommunication and transport which are key in the national economy. For this purpose, the limit of the duties and responsibilities undertaken by regulation institutions in order to correct the disruptions of the market and to establish the competition should be clarified by the laws and rules. Furthermore, the existing regulation, and especially economic regulation practices in Turkey -taking into consideration the results of similar practices in other countries- should be revised in the context of "globalization, privatization and competition" phenomenons then, according to this point of view reasonable regulatory policies should be identified and implemented by sectoral base.

Keywords: Public Economics, Regulation, Economic Regulation, Economic Efficiency

JEL Code: H30, K20, L51, H13

1. Introduction

The regulatory function of the state is carried out through regulation.We see that the state uses often the regulations as a form of intervention when the market does not provide efficiency by itself or the market is unsuccessful. It is possible to say that the state aims to effectively allocate resources through regulations, and therefore economic regulation is used as a requirement of economic activity.

Aim of this study to put forth the conceptual dimension of economic regulation and the

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general outline of its application in Turkey in the framework of economic efficiency. So, a literature review and some evaluations were made.

In the study respectively; efficiency and economic efficiency concepts, conceptual perspective of economic regulation, the relationship between economic regulation and economic activity,assessment of the transition to economic regulation in Turkey were discussed. In this context, determinations and suggestions were made.

2. Efficiency and Economic Efficiency Concepts

The concept of activity is expressed as the absence of waste and is explained by a distinction in the form of static-dynamic. Static efficiency; X efficiency is divided into two as activity and resource allocation. X efficiency[1], the presence of effective management in the company and expresses the state of error and laziness; resource allocation efficiency refers to the situation in which resources are allocated in such a way as to ensure the equality of the prices for each company and every goods to the marginal cost. Dynamic efficiency is a criterion that expresses the optimum technical composition, which occurs when resources are effectively allocated for innovation and inventions, and inventions do not postpone specific gains (Akça, 2007: 23).

In general, while the concept of efficiency can be explained in this way, economic efficiency[2] can be defined as maximizing the welfare by providing optimum resource distribution in free market system. In order to ensure economic efficiency, the distribution of resources (efficiency in distribution) and production should be carried out effectively (efficiency in production). The mechanism to do this is the functioning of competitive markets.Indeed, in the long term, it can be seen in competitive markets both "efficiency in production" (achieved by reducing costs to a minimum) and "efficiency in distribution" (consumer demands met with price reflecting costs)(Ardıyok, 2002: 10; Çakal, 1996: 7). General efficiency is provided when both activities are provided simultaneously.

3. Conceptual Perspective Of Economic Regulation

In today's democratic societies, the state has the functions of ensuring efficiency in resource utilization and distribution and ensuring economic development and stability. The realization of these functions is possible by providing free competition in the markets. Therefore, it is the duty of the state to take measures for the formation and protection of competition in the markets, to establish the legal framework and to provide supervision.These duties of the states reveal the result of the formation of “economic regulation” (Pervan, 2006: 14).

[1]Leibenstein (1966, 1975) stated that individuals and firms work under normal conditions for a number of reasons and are not working efficiently, therefore firms and economies cannot operate on the production possibilities curve that they can realize in accordance with their resources, he stated that he was high and important and he defined this situation as“X-inefficiency”.
[2]For detailed information on economic efficiency and its types, see. Kirmanoğlu, 2011: 63-70.

Economic regulation can be defined as the methods developed by natural monopolies in order to eliminate the negativities created by natural monopolies and to provide economic efficiency and to intervene in these markets by various institutions in order to eliminate market failures (Erol, 2003: 23).In terms of economic regulation, the state can put restrictions on the decisions of firms in the sector in order to ensure competition in the market. These limitations, as well as the price of the product, can be about the amount of the state and the market entry and exit can also keep the state under control (Sarısoy, 2010: 281).

After the crisis in 1930s, the main aim of the regulatory state, which occurred especially during the Second World War, was to manage the economy. At present, the vast majority of current regulatory authorities and rules have been influenced by the ideas that occurred in that period or later in that period. These regulations for improving the efficiency of the markets are called "economic regulation". As an example of economic regulation; price, wage (such as minimum wage), rent, interest rate and exchange rate controls, prevention or limitation of access to the market, providing incentives to public institutions and private institutions, etc. applications. Economic regulation aims to ensure the effectiveness of the markets by creating rules for adequate competition among the existing actors in the market or by setting rules that will make them behave similar to the behaviors they would demonstrate if they were competitive (Tepe&Ardıyok, 2004: 108-109).

Although it is said that there have been regulations since the day the state existed, it can be said that the scientific debates on economic regulation started in the USA in the 1800s and the discussion of it in the economic literature has increased since the 1970s (Sarısoy, 2010: 295-296).

4. Relationship Between Economic Efficiency And Economic Regulation[1]

Market failures for the existence or emergence of economic regulation are indicated. Because economic regulation is one of the intervention tools used by the state to eliminate market failures. Therefore, the primary objective of economic regulation should be to eliminate market failures (Akça, 2007: 22). From this point of view, it should be the main objective to ensure economic efficiency, whether for the purpose of public interest or for personal benefit. That is, the starting point of economic regulation is based on market failures around the purpose of public interest. Market failure indicates inefficiency in resource allocation. This inefficiency can be eliminated by economic regulation. In other words, an effective economic regulation is needed in order to eliminate the welfare losses caused by inefficiency (Akça, 2007: 121-122).

Economic regulation can be considered as a two-stage process. In the first stage, the objectives of the regulation are determined; In the second stage, an environment is

[1]Several debates and opinions were made on the relationship between economic activity and economic regulation. In this context; SeeDemsetz (1969), Stigler (1976), Williamson (1979), and Becker (1983). Akca, 2007: 122-123.

created to achieve this goal and the most appropriate methods are developed (Uğurlu, 2007: 27). In other words, economic regulation tries to achieve an optimum solution by providing a balance between economic efficiency and economic sustainability. In the second step after the optimum solution is determined, it is necessary to identify the most appropriate means to achieve this goal. Although the most important tool of economic regulation is tariff (price, wage etc.), it cannot be said that it is limited to tariff. It has a wider application area including some other elements such as market entry-exit, quality regulation (Uğurlu, 2007: 28).

The relationship between economic activity and economic regulation is to summarize the use of economic regulation to eliminate inefficiency in resource allocation due to market failure. In other words, it is the use of economic regulation to eliminate economic inefficiency and to ensure efficiency.

5. Evaluation Of The Transition To Economic Regulation In Turkey

In Turkey (economic) history of the regulation of the practice, considered as two different periods. The first period is a period in which the state establishes its own market by producing goods and services and the private enterprise is limited. The second period is the period in which the state is dealing with the control of the markets without being involved in the production process. Second, although the more recent period, Turkey is the first period that dominated the economic history (Oğuz&Çakmak, 2002).

The processes related to economic regulation in Turkey, located roughly summarize the overall assessment and, if necessary, mixed economic system implemented in Turkey until the 1980s, a little more visible after this date is passed to the market economy. Until then, public services carried out by the public have been carried out by the private sector through privatizations. With the transfer of these public services, which are predominantly of natural monopoly, to private sector, private monopolies were replaced by public monopolies. In order to minimize these problems and to regulate these markets, various rules have been set up and institutions and committees have been formed to implement these rules (Uğurlu, 2007: 30; Erol, 2003: 26).

The prevalence of regulation institutions in our country has two important roles. The emergence of these institutions is an indication of the end of the public sector in the economic structure, in other words, in the economic structure. Another situation is that the state starts to withdraw from the production site through the regulatory bodies. However, regulatory bodies require more budget size due to their role as a market inspector, even though they do not produce, and this results in more processing costs (Oğuz&Çakmak, 2002). At this point, the form of intervention in the market is important. The extent and degree of intervention to the market; the role of regulation institutions is measured by the effect direction and amount. The social benefit of competition and activity-oriented regulation institutions in the market is higher than the social cost. Regulation institutions play an important role in the development of a country. Considering the current situation in our country, which is in the group of developing

countries, we can say that the existence of economic regulation and its practitioners is overwhelming and necessary.

Under current conditions, we can make various predictions for the future by evaluating economic regulation in two aspects. Namely;

- In the near future, it would be correct to expect that these regulations will decrease with globalization. The advances in technology and the reduction in the cost of information transfer increase the cost of market differences between countries and encourage movements in the direction of deregulation. In the globalized world, we can say that deregulation will be earlier and faster in countries where it is possible to use the advantages of globalization more. As a matter of fact, the fact that developed countries are the pioneer in deregulation shows this. However, in developing countries, industries with higher access to international markets will tend to put more pressure on deregulation. privatization and opening up efforts to compete in Turkey will also be assessed in this framework right (Oğuz&Çakmak, 2002). However, in the current situation, the trend in the western countries, deregulation direction, while the regulation in our country is just beginning to institutionalize, the transition to deregulation shows that the transition will be much more painful (Oğuz, 2011: 296).
- In addition, the concept of regulation is primarily Assoc.d with the elimination of inefficiencies created by monopolies. The aim is to protect the consumers. In practice, it is widely used for the purpose of reaching political goals or for rent / interest exploration activities (Oğuz, 2011: 296). Therefore, the trend towards decreasing regulations is increasing. In addition to the use of regulations for rent / interest search activities; The tendency of globalization and regulation to be better calculated by the benefits and costs of this trend is strengthened (Oğuz&Çakmak, 2002).

As a result, although economic regulation is seen as a remedy for economic inefficiency, the competition for regulation may lead to inefficiency by lowering the marginal social benefit expected from the regulation far below the marginal social costs (Parker, 2002: 499). Therefore, the implementation of economic regulation should be supported by policies appropriate to market interests, taking into account the internal dynamics and stakeholders of the sector.

6. Conclusion

When analyzed the economic regulation practices in Turkey, it is observed that there is a lack of regulation in point of economic activity and maintain its competitiveness. In the economically strong sectors (finance, capital, banking, energy, telecommunication and transport markets), the upper committees (CMB, BRSA, EMRA, BTK etc.)[1], which are the implementers of economic regulation;it is possible to say that they are not independent

[1] Capital Markets Board (CMB), Banking Regulation and Supervision Agency (BRSA), Energy Market Regulatory Authority (EMRA), Information Technology and Communication Authority (ICTA)

enough and cannot make effective decisions in-market competition, activity, pricing etc. In spite of their independent and autonomous structures.

In these key markets, it is important to design a system in order to achieve social benefit or public benefit by ensuring the co-ordination of public-private sector firms and consumer interests through the relevant regulatory bodies.

The limit of the duties and responsibilities undertaken by the regulatory institutions should be clarified by laws and rules in order to correct the disruptions of the market and to establish competition; these institutions should not be allowed to intervene in free market operation and in a way that would harm competition. For this purpose, the authority should be limited (in order to avoid overruns) and corporate accountability should be ensured.

Finally, the existing regulation, and especially economic regulation practices in Turkey - by taking into consideration the results of similar practices in other countries- in the context of "globalization, privatization and competition" phenomenon that today's prominent and directly affects the regulations should be revised and the most reasonable regulatory policies on a sectoral basis should be identified and implemented.

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ANALYSIS OF CYCLICAL BEHAVIOR OF FISCAL POLICY THROUGH FISCAL REACTION FUNCTION: THE CASE OF TURKEY*

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Abstract

To analyze of cyclical behavior of fiscal policy provides important information about the direction and outcomes of fiscal policy. The cyclical behavior of fiscal policy is basically two-way. First is procyclical fiscal policy, second is countercyclical fiscal policy. One way to analyze cyclical behavior of fiscal policy is to estimate the fiscal reaction function for country. This study examine to what type of exhibit cyclical behavior of fiscal policy for in period 2000Q1-2015Q4 for Turkey. It is concluded that primary balance showed a positive response to the output gap. Accordingly, it is concluded that fiscal policyis "countercyclical" for this sample. In other words, it can be said that fiscal policy has been a role in reducing the severity of cyclical fluctuations. Even though fiscal policy appearsto has been responsible,as a new evidence about debt sustainability it is also found that fiscal fatigue may occur in very high debt levels Accordingly, fiscal policy implementations should be conduct within the framework of public fiscal discipline.

Keywords: Fiscal reaction function, countercyclical fiscal policy, procyclical fiscal policy, fiscal fatigue.

JEL Code: E62, H62, H63

1. Introduction

The investigation of cyclical behavior of fiscal policy is an important issue for understanding economic interactions. In fact, policies should be implemented based on these interactions. Keynesian models argue for an increase in public spending for economic recovery during recession while Barro (1979) suggests that fiscal policy should be neutral. Within the framework of these views discussions on the academic field have begun to focus on how the fiscal policies have affected the severity of cyclical fluctuations and the role of fiscal policies has become an important issue. In addition the issue of whether fiscal policies are sustainable or not has found their place in the axis of these discussions.

The main objective of this study is to analyze what type of exhibit cyclical behavior of fiscal policyin period 2000Q1-2015Q4 for Turkey. The results indicate that fiscal policy

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iscountercyclical in this period. Another result of the analysis is that very high debt level may lead to fiscal fatigue. Indeed the emergence of such a symptom may raise concerns about the sustainability of fiscal policies. Therefore, priority should be given to the implementation of policies that do not impair public fiscal discipline.

2. The Cyclical Behavior of Fiscal Policy

When cyclical behavior of fiscal policy is mentioned, two basic concepts emerge. The first is procyclical fiscal policy and the second is countercyclical fiscal policy. Sticky prices and wages in Keynesian theory prevent price adjustments to occur immediately in demand fluctuations. The countercyclical fiscal policy helps the economy to adapt to such fluctuations more rapidly and fully. For this reason, fiscal policy should reduce the fluctuations in business cycles actively by reducing taxes and increasing expenditures in bad times of economy (Halland & Bleaney, 2009: 1). The countercyclical fiscal policy also includes low public spending and high tax rates when the economy is in good time. However, the procyclical fiscal policy is acting in an expanding direction in times when the economy is good (Kaminskyet. al., 2005: 17). There are many reasons why the fiscal policy is procyclical. However, among the main reasons; limits on access to national and international credit markets, institutional and political structures, and the polarization of preferences regarding social inequality (Halland & Bleaney, 2009: 4). Furthermore, Tornell& Lane (2008) found that the increase in revenues as the reason of the procyclical behavior of fiscal policy is “voracity effect” in which politicians want to more spending increase (Fatas & Mihov, 2012: 4). Frankel et. al. (2012) showed that one-third of developing countries have been able to get out of procyclical fiscal policies bias in the last 10 years and have countercylical fiscal policy behavior. The main reason for this was increased financial integration and low output volatility. However, they suggested that increasing the quality of institutions as very important issue was a more valid reason.

The fiscal space also has an impact on the cyclical behavior of fiscal policy. Because the stock of public debt may limit the resources that can maintain countercyclical fiscal policy. In addition, even if resources are available, high public debt can send a negative signal to creditors and taxpayers, causing the country to remain in a difficult position in the future (Abdih et. al.; 2010: 13).

3. Literature

In the literature, it is seen that the cyclical behavior of the fiscal policies is different in developed and developing countries. In this context, firstly Gavin and Perotti (1997) gave an answer as to what is the cyclical behavior of fiscal policies. They have argued that the fiscal policies in Latin American countries areexpansionary in good times, while they arecontractionary in bad times. In other words, Gavin and Perotti (1997) have shown that fiscal policies are procyclical in Latin American countries.In developing countries, there are studies suggesting that fiscal policy is mostly procyclical. However, studies on developed countries appear to have countercyclical fiscal policy or, at worst, an acyclical

fiscal policy. For instance, Alesina, et. al. (2008), Fatas & Mihov (2012), Egert (2012), Combes et. al. (2017) found that developed countries have countercyclical fiscal policy.

4. Results

In this study, fiscal reaction function is estimated for analysis of cyclical behavior of fiscal policyfor Turkey. The aim is to show how fiscal policy have behaved in Turkey. The fiscal reaction function is a rule that helps fiscal policy makers for predict how to respond to macroeconomic variables (Nguyen, 2013: 3). When the fiscal reaction function is well modeled and analyzed, accurate results can be obtained. According to findings, It is observed that the response of the primary balance to the output gap is positive; in other words, the fiscal policy is countercyclical unlike other developing countries. Therefore, it can be said that fiscal policyhas been a role in reducing the severity of cyclical fluctuations.In addition, it can be also said that public fiscal discipline has contributed to fiscal credibility. Other result is fiscal fatigue which is a stricter debt sustainability conditionas suggested Ghosh et. al. (2013). This situation constitutes an obstacle to fiscal policy as a stabilization tool. In other words, fiscal policy may increase the severity of cyclical fluctuations at very high debt levels. Therefore, debt policies should be implemented in a way that will not harm public fiscal discipline.

5. Conclusion

In recent years, many studies have been carried out in order to see how the fiscal policies are in cyclical behavior. In the studies, it has been investigated by using various methodshow the fiscal policies in the country or country groups are in a cyclical behavior. This study analyzes the cyclical behavior of fiscal policy for Turkey. As a result, it is found that fiscal policy is countercyclical. This result shows that fiscal policy has an important role in achieving economic stability in Turkey. Also strong public financehas fundemantal role with the Transition Program to Strong Economy which is implemented after the 2001 crisis. It has also resulted that signs of fiscal fatigue may reveal in very high debt levels. Therefore, debt policies need to be implemented carefully. In fact, high budget deficits can create high debt as it had been experienced in the past and this situation may lead to heavy economic burden and harm to public fiscal discipline. When the two results are evaluated together, fiscal policy implementations should be realized within the framework of public fiscal discipline. For this, implementation of a fiscal rule that can act as an anchor can be an important policy.

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CRISES OF REAL SECTOR AND FISCAL POLICIES IN TURKEY IN THE PROCESS OF GLOBALIZATION

İpek DOĞAN ÖZER[1]

Abstract

This study examines the crises, which increases in prevalence and spreadsalong with globalization, in terms of the fiscal policies implemented in the Turkish economy. The focus of the study is the impact of Mortgage crises on Turkey and the analysis of the 2018 real sector indicators in terms of the crisis.
Globalization has been on the rise since the 19th century. Liberal policies implemented with globalization creates new opportunities in some cases while these policies presents source of threat in some other cases. Economic crises are at the top of this threat. The dependence of the country's economy on the economies of other countries plays a significant role in the emergence of a crisis. This kind of dependency relation leads crises to spread rapidly to other country/ countries. It was the 24 January Decisions leading to this dependence and contagion for Turkish economy. Liberal policies led to ruleless and limitless flow of global capital specially in the short term and this made Turkish economy vulnerable to some risks. Due to these risks the structural problems of Turkey as the high share of debt interest in the budget, inflation, foreign trade deficit, current account deficit, unemployment etc. have continued. Sometimes in some sectors these structural problems have manifested themselves as a crisis.
The crisis arises in the financial and reel sectors. The economic crisis which is the focus of discussions in Turkey today will be analyzed in comparision with the 2008 crisis in terms of real sector. The current situation of the real sector will be revealed. Moreover, it will be discussed that the implemented monetary policies are insufficient and instead fiscal policies are more successful. Thus, it will be seen that in the 21th century the Keynesian policies are on the agenda again. The expected outcome of the study is observation of recession and inflation in the Turkish real sector.

Keywords: Economic Crisis, Real Sector, Fiscal Policy

JEL Code: G17, F38, E62

1. Introduction

There is an undeniable effect of globalization both in Turkey and in the world. Through globalization, the world has shrunk and financial capital has gained a very fast and unlimited space of movement from one country to another. While unlimited and free circulation of the financial capital has a positive impact on the country where it enters as a resource, it may cause negative even destructive effects in the country it outflows.The leading effect is crisis which increase in prevalence and spreading with

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globalization.The global economic crises emerge in a specific country and spreads to the other country(s).

There have been a wide variety of crises in the globalization process. The emergence of crises, the affected area and the policies to be implemented have been differentiated within historical process. In the period when Classical Economic School was dominant, equilibrium was accepted as the normal state of the economy and the state of imbalance is accepted as temporary. However, emergence of 1929 Great Depression totally destroyed this dominance. The crisis of 1929 was the first global crisis in the world. It was experienced due to printing unbacked money. Since the source of the crisis was money, the remedy to get rid of it was seen in the monetary policy. However, monetary policy did not solve the problem. On the other hand, it was understood that the state of imbalance in economy is not temporary and state intervention is compulsory. Keynesian demand-side policies came to the fore. In order to get out of the crisis, not only monetary policies but also fiscal policies started to be implemented.

After 1929 crisis, the largest scale global crisis that has devastating effects is the 2008 crisis that began in America and affected other countries. In the meantime, Keynesian policies, capitalist order, social state have begun to be discussed again. This study discusses the effects of 2008 crisis to Turkey, implemented fiscal policies and current real sector with using empirical data. The economic crises experienced in Turkish real sector between 2008-2009 is compared with 2018 data. The study searches an answer whether real sector experiences a crisis in 2018.

2. The Impact of the Crises on Turkey That Began in US

The largest scale crisis experienced during the globalization process is the Great Depression of 1929. 1929 crisis is significant in terms of its effects and consequences. Meantime it is understood that the state of imbalance is not temporary and state intervention is obligatory. Keynesian demand-side policies came to the fore due to the failure of Classical Economics in preventing crisis. Thus, not only monetary policies but also fiscal policies started to be implemented in order to get out of crisis.

Following 1929, the largest scale global crisis that has devastating effects emerged in US in 2008. Not only US but also other countries have significantly affected from 2008 crisis. The Federal Reserve (FED) has applied low interest rates that lead to emergence of new financial instruments. The search of capital for higher profits led him to these new fiscal instruments. Accordingly, a rapid increase in demand caused by lack of information about derivative markets and asymmetric information has increased the amount of product and the balloon has swelled (Eğilmez, 2009: 96).

Table 1. 2007 Global Capital Markets

Billion USD	GDP	Foreign Exchange Reserve	Stocks, Bonds Etc
The World	55.545	6.448	144.927
EU	15.689	280	42.952
USA	13.808	60	49.802
Japan	4.382	953	13.882
Developing Countries	17.282	4.910	28.771

Source: Eğilmez, 2009: 45.

The global capital markets for 2007 are given in Table 1. While European Union (EU) has 15.689 billion dollars and United States (USA) has 13.808 billion dollars; developing countries have 17.282 billion dollars. EU and USA hold 53% of the world's gross domestic product (GDP). 29% of the stocks, and bonds and similar instruments are in the hand of EU and 34% are in the United States. It is seen that most of the derivative markets are in the USA. On the other hand, since financial markets are not well developed in developing countries, instruments like stock and bond are at a lower level. Since each crisis emerges as an outcome of growth, it is impressive that the size of the derivative market is 2.6 times of the world GDP which is 55 trillion dollars.

In the USA, especially low floating interest rates of mortgage loans in the housing finance system increased; and housing demand and housing prices rose. In conjunction with this artificial rise, people with subthreshold credit ratings have head for housing loans. Thus, prices in the housing market go up and a price bubble has formed. Due to the non-repayment of subthreshold loans in the US, banks reduced credit supply and the housing demand and housing prices decreased. The rapid decline in the prices of securities affected each country investing in this area. The crisis started in global money markets narrowed credit markets in US and Europe, stock prices declined, uncertainty and shortage of payment increased in the economy (Yılmaz, 2014: 117). The 2008 crisis emerged in the real estate sector in the USA affected other countries with the collapse of an investment bank named Lehman Brothers (Kazgan, 2013: 281-282).

Due to the fact the absence of development of Turkishderivatives market, Turkey did not directly affect by this crisis. Indirectly, the decrease in exports and foreign loans have affected the real sector in Turkey and led to the crisis. The inflow of funds decreased but the growth rate did not decrease in the first six months of 2008. Therefore, it was thought that Turkey was not affected by the crisis. However, all sectors except agriculture and finance experienced a collapse in the last quarter of 2008 (Kazgan, 2013: 280-283). The contraction of Turkish economy has led to an increase in budget deficit by reducing the tax base. Economic stability deteriorated due to the decrease of investment as an outcome of raise in public debt and risk premium (Yılmaz, 2014: 267-268).

Contraction in Turkish economy has continued in 2009, the current account deficit increased, foreign direct investment reduced and foreign capital has left the country. On

the other hand, large companies internationalized and SMEs were closed (Kazgan, 2013: 285-288).

The reason behind the economic crisis was accepted as market and again state's weight and power in the economy were increased (Piketty, 2018: 510). In order to get out of the crisis, monetary policy implemented. However, when it was insufficient stimulative policies were applied. In fact, compared to fiscal policy monetary policy is easier in implementation. However, fiscal policies are more effective. Therefore, liquidity supports, tax incentives, loans for production and exports, warranty and funding supports have followed the monetary policy implemented by the Central Bank.Cash repatriation reduced withholding tax to zero that implemented to domestic investors in equity gains. Tax debts before September 1, 2008 were split into installments at 3% interest for eighteen months. The deduction in resource utilization support fund in loans extended to real persons wasreduced to 10%. The private communication tax of Internet service providers was reduced to 5%. Corporate tax exemption was introduced for SMEs. SMEs were supported with zero or low interest loans. SMEs were also given opportunity to benefit from KOSGEB loans. The maturities of low-interest agricultural loans by Ziraat Bank and Agricultural Credit Cooperatives was increased. Eximbank's credit limits and issued capital was increased. In order to increase domestic demand, the period of temporary special consumption tax discount rates was extended in 2009.

In the Decision on State Aids in Investments accepted in 2009, customs tax exemption, minimum amount of investments, VAT exemption, employer's share of insurance premium, tax deduction and budgetary payments were arranged. Canalizing the focus on high value-added investments, preventing unemployment through increasing production, ensuring sustainable development, increasing the international competitiveness that encourage large-scale investments with high technology and research-development content, increasing foreign direct investments and reducing regional development differences were main targets of these applications. Within the scope of the notification published in accordance with this decision, incentive amounts for four investment regions and minimum investment amount to benefit from incentives were determined. Those who exceed the minimum amount of the investment have been provided with customs duty exemption, value added tax (VAT) exemption, tax deduction, investment site allocation and support for employer's national insurance contribution.

Global crisis had a negative impact on Turkish economy in terms of foreign trade, financing and expectations. The economy recovered an environment of trust with the monetary policy and following simulative packages. Accordingly, favorable credit conditions have increased domestic demand. Thus, the impact of the crisis on Turkish economy declined towards the end of 2009. The indicators of the crisis have disappeared with 11% growth in 2010. As a result of the crisis, the role of the state in the economy (social state, increase in tax rates, progressive tax system etc.) had been re-questioned.

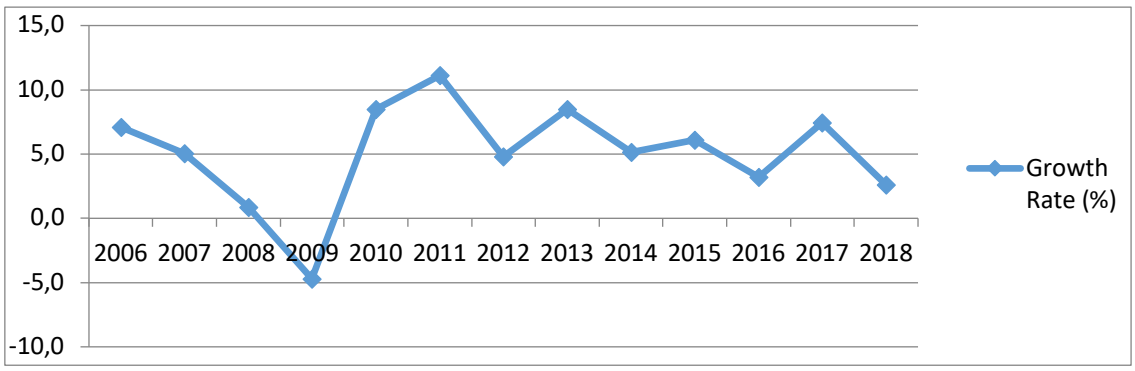
3. Evaluation of 2018 within the Scope of Real Sector Indicators

For the first time since the 2008 global crisis, the world economy and global trade began to revive in 2017. Economic growth has accelerated in the US and Europe and unemployment rates have declined. On the other hand, raise in oil prices in developing countries led to increase in growth rates. In the Chinese economy, shadow banking and capital outflows began to be controlled, the financial sector was relieved. However, the tight monetary policy implemented by the American Central Bank (FED) and European Central Bank (ECB) had a negative impact on global capital flows. Countries with foreign currency debt got into a panic. In the meantime, Turkey increased industrial production capacity utilization rate up to 80% in 2017. In order to reduce the budget deficit, the government has appealed to austerity measures. In addition, tax rates in some sectors were increased and new taxes were introduced (TÜSİAD, 2018: 3-17).

Turkey experienced a significant rise in exchange rates in the second quarter of 2018. Due to the rise in the exchange rate, demand for foreign currency also increased and Turkish Lira depreciated. Generally, a speculative attack on any currency causes a currency crisis (Krugman, 1997: 1). This crisis has prevented by implementation of the monetary policies. Since the effect of sudden and rapid rise in exchange rate experienced in 2018 has been observed in real sector, only real sector data are included. The crisis in the real sector shows itself in the form of unemployment, stagnation, inflation etc. in goods, services and labor markets. Two-quarter data is taken as basis to evaluate instability conditions such as inflation, stagflation and recession. An economy that has a growth rate of 0-2% within last six-month periodis considered to be in a recession period. If the growth is negative and continues to shrink, the recession is turning to a crisis (Ulusoy, 2016: 220).

In order to understand the situation in the real sector, growth rate, industrial production index, inflation, construction cost index and unemployment rate indicators will be used. While analyzing indicators, the comparison of 2008 and 2018 is significant to understand the current real sector situation better.

Figure 1. Growth Rate (Change in GDP%)



Source: Generated by the author using the TurkStat data.

The growth rate of Turkish economy between 2006- 2018 is shown in Figure 1. Figure 1 shows that the economy has shrank since 2006, the growth rate in 2008 is just 0,8% and the economy shrank by 4,7%. It is seen that in Turkey the global economic crisis of 2008 shows its impact in 2009. The economy recovered in 2010 and the growth rate in 2011 was 11,1%. However, the economy narrowed again in 2012 and grew by 8,5% in 2013. The economy shrank compared to the previous year in 2014. It grew by 6,1% in 2015, shrunk again in 2016 and the growth rate in 2017 was 7,4%. It is seen that Turkish economy cannot sustained a steady growth at that time. In September 2018, the economy contracted %2,2 and regress to 5,2%. The downturn experienced in 2008 and 2009 has not yet taken place in 2018. However, while the economy grew by 1,8% in the third quarter of 2018, the economy shrank by 3% in the last quarter. For this reason, the economy has entered the recession process.

Table 2. 2018 GrossDomestic Product InTerms of TL/ USD

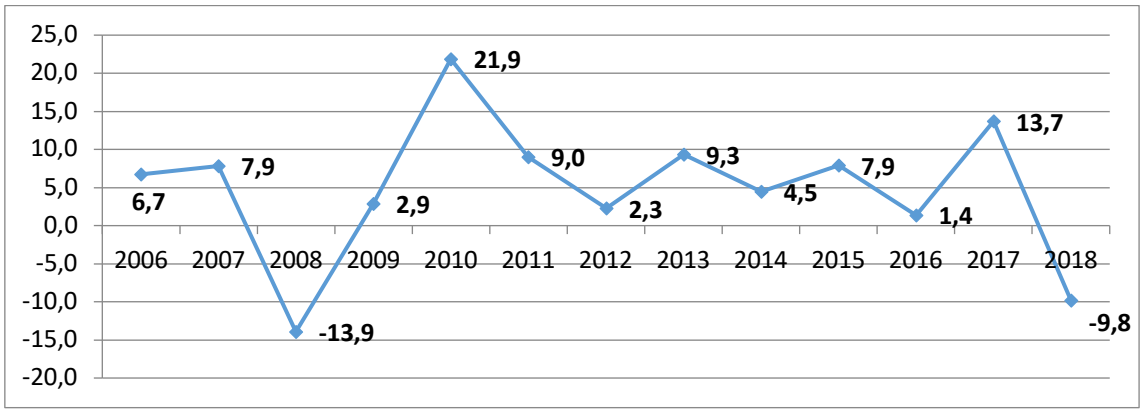
1. Quarter	788billionTL	206 billion $*
2. Quarter	885billion TL	202 billion $
3. Quarter	1.016trillion TL	180billion $
4. Quarter	1.010 trillion TL	183 billion$

*Calculations were made on average three-month exchange rates.

Source: Generated by the author using TurkStat, Ministry of Treasury and Finance data.

As shown in Table 2, except last period Turkish per capita GDP at current prices rose in TL terms. However, due to the 3% contraction in the last quarter of the economy, the national income decreased in TL terms. However, the national income declined against the dollar except the last period. At this point, the appreciation of the Turkish lira is important (Eğilmez, Yeniçağ, 10.12.2018).

Figure 2. Change Rate of Industrial Production Index Compared to December of the Previous Year(%)



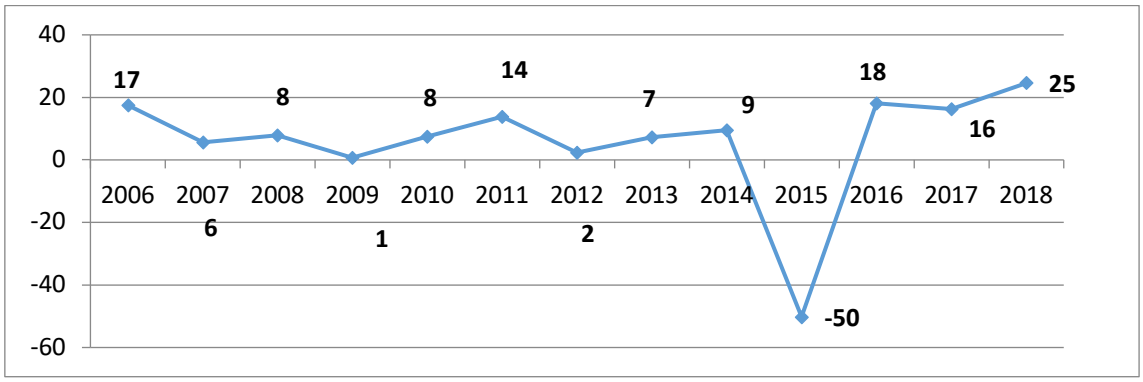
Source: Generated by the author with using seasonally adjusted TurkStat data

Figure 2 shows changes of seasonally adjusted industrial production index of Turkish economy from one December to the following December. While the production index increased approximately 6,7% in 2006 it started to decrease in 2007. At the end of 2008, as the effects of the crisis were observed, industrial production index decreased by 13,9% compared to the previous year. Production increased with the measures taken in 2009 and reached to its highest level in 2010 with 21,9%. However, compared to the year before, industrial production index decreased in 2011, 2012, 2014 and 2016.

The instability in the industrial production index is in line with the economic growth. In 2017, industrial production significantly increased but this was short-lived. Industrial production decreased by 9,8% at the end of 2018. This contraction in industrial production is lower than the one in 2008.

The contraction in industrial production increases bankruptcy, liquidation and unpaid debts in the economy. According to the data of The Union of Chambers and Commodity Exchange of Turkey (TOBB), 23.596 companies were closed and 9.462 companies entered the liquidation process in September 2018 (TOBB, 2018: 19-20). The number of the firms applied for concordat was 401. In December, 1.566 companies entered the liquidation process while 3.960 companies were closed down (TOBB, https://www.tobb.org.tr/en/, Date Accessed: 21.03.2019). The continuously decrease in the industrial production index adversely affect both the unemployment data and foreign trade data.

Figure 3. Change Rates of Construction Cost Index Compared to the December of the Previous Year (%)



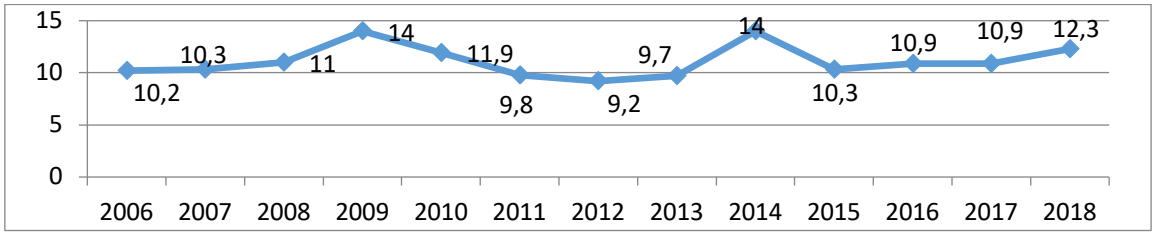
Source: Generated by the author using TurkStat data (2005 and 2015 are taken as base years)

Figure 3 shows the change in the construction cost index of 2006-2018 compared to December of the previous year. Construction costs decreased by 50% in 2015. The main reason for this significant decline is thought to be the change in the base year, because the costs have continued to increase in the following years. Costs increased 18% in 2016, 16% in 2017 and 25% in 2018.

The increase in construction costs had a negative impact on the housing market. Housing sales increased by 4% in 2016 and 5% in 2017 and decreased by 2,4% in 2018 (TurkStat, https://biruni.tuik.gov.tr/medas/?kn=73&locale=en, Date Accessed: 21.03.2019). In order to prevent this decline, fiscal policy was brought to agenda. VAT rates were decreased from 18 percent to 8 percent in housing sales. In addition, the reduction of title deed fees from 4 percent to 3 percent was continued. However, the high interest rates and construction costs did not provide sufficient demand.

The instability in the economy affects many data. In this respect, it is seen that economic data are not independent from each other but affect each other. The decrease in the industrial production index lead to increase the number of close down firms and unemployment. The most important outcome of the increase in construction costs and decrease of industrial production index is seen in employment.

Figure 4. Change of Unemployment Rate Compared to Previous Year

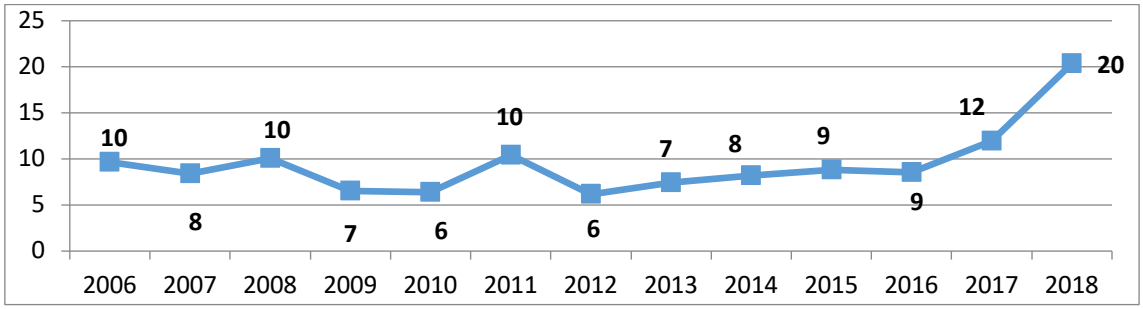


Source: Generated by the author using TurkStat data.

Figure 4 presents the change of unemployment rates compared to the one year before. The data contains information between 2006- 2018. The unemployment rate was 10% in 2006 and 2007. It increased to 11% in 2008 and 14% in 2009. In the following three years, it decreased gradually. It increased to 9,7% in 2013. In 2014, It increased to 14% due to the contraction in the economy. It decreased to 10,3% in 2015 while it increased to 12,3% in 2016, 2017 and 2018. In fact, it has not reached the level it reached in 2009. Considering all of these developments, one can say there is a recession in the economy. Moreover, rising inflation has accompanied to this recession since 2016.

Inflation is an instantaneous and continuous rise in the general price level within six-month period. In developing countries continuous price increases over 6% is considered as inflation while this rate is 3% for developed countries. Moreover, inflation rate below 7% is considered as a moderate inflation, while two-or three-digit inflation rates are accepted as excessive inflation (Ulusoy, 2016: 186).

Figure 5. CPI, % Change Compared to December of Previous Year



Source: Generated by the author using TurkStat data.

Figure 5 shows the yearly percentage change in consumer price index (CPI) and consist the data between 2006- 2018. Inflation rate has not decreased below 6% within the relevant period. Inflation reached to double-digit figures in 2017 which is higher compared to the period of 2008 crisis.

The decrease in consumption and investment expenditures in the economy leads to shortage of demand (TurkStat, http://tuik.gov.tr/HbGetir HTML. Do? Id = 30886, Date Accessed: 21.03.2019). Production decreases due to the lack of demand. Enterprises work with low capacity and employment increases (Ulusoy, 2016: 220). On the other hand, inflation adversely affects exports and triggers unemployment.

Turkish economy experiences slumpflation in 2018 where the economy contradicts with an excessive inflation (Eğilmez, http://www.mahfi egilmez.com/ 2019/03/turkiye-slumpflasyona-girdi.html, Date Accessed: 22.03.2019). It is difficult to fight with slumpflation.

Expansionary fiscal policies (increasing public expenditures, tax reductions) should be implemented in the fight against recession. Public expenditures should encourage private sector spending to prevent contraction in the economy. Moreover, by multiplier effect public spending will provide an expansion in the economy. Turkey implement SCT

and VAT reductions to stimulate private sector spending. Budget expenditures were increased by 22,4% and accordingly public expenditures rises by TL 830 billion. The budget has given deficit (Ministry of Treasury and Finance, http://www.bumko.gov.tr/Eklenti/12349,aralik-2018-aylik-butce-gerceklesmelerirapo rupdf.pdf? 0, Data Accesed: 21.03.2019). Expansionary fiscal policy was applied but the desired outcome could not be obtained.

Contractionary fiscal policy should be implemented in the fight against inflation. In October 2018, the inflation rate beat a record with a rate of 25,24%. As a result, an anti-inflation program has introduced. As an outcome, inflation rate decreased to 21,62 % in November and 20% in December. The main reason behind this is reduction of transportation costs by cheapen the oil prices.

Real sector data of Turkey shows the problems like high inflation, unemployment, economic downturn, decline of industrial production. The growth rate has not experienced a decline seen in 2008 yet. Industrial production index decreased by 7% compared to 2017. However, it has not reached 2008-2009 level. The construction cost index increased highly (25%) compared to 2008-2009. Inflation was doubled in the same period. These data show us the fact that Turkey experiences slumpflation. Expansionary policies should be implemented to increase demand until recovery. When recovery achieved, contractionary policies should be implemented. Economic problems should be identified on time and right policies should be implemented without delay. In addition, the success of the policies increases as compatibility with other policies increases.

4. Conclusion

As a result of globalization, the international flow of financial capital increased and crises multiplied. Turkish economy is also affected by the global crises. 2008 crisis that emerged in the US was reawaken Keynesian policies and social state. Turkey indirectly affected by the crisis and has implemented mainly expansionary fiscal policy. Thus, the economy started to recover by the end of 2009.

This study compares 2018 and 2008-2009 Turkish data in terms of the growth rate, inflation, industry production index, construction cost index, unemployment. The growth rate did not experience a similar decline as in 2008 crisis period. Industrial production index decreased by 7% compared to 2017. However, it has not reached 2008-2009 level. The construction cost index increased highly (25%) compared to 2008-2009. Inflation is doubled and appeared as 20% in 2018. These data show us the fact that Turkey experiences slumpflation.

Both expansionary and contractionary policies must be implemented in order to fight with slumpflation. Public spending has increased through tax cuts for the recovery of Turkish economy. However, the demand has not reached the desired level. Expansionary fiscal policies should be continued and after demand reaches to the desired level contractionary policy should be applied. Fiscal policy should be implemented on time and be supported with other policies.

Probably monetary policies, anti-inflation measures, tax incentives, the new economic programs, increase in public savings will solve the problems but this will take time. The economic crisis is not experienced only in the real sector. The crisis occurred in the real sector appear as dead loans in the financial sector. Therefore, loan and financial sector data should be considered and evaluated.

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AN ECONOMETRIC ANALYSIS ON DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN TURKEY

Mikail PEHLİVAN[1]

Abstract

The globalization phenomenon, which started with financial liberalization in developed countries in the 1970s, was expanded in the 1980s and 90s by developing countries. This globalization process, which started with financial liberalization, made the countries more affected with each other.Foreign direct investments (FDI)are desired to be drawn into the country for the purposes of medium and long-term employment, technology transfer, integration into international markets, development of competitive environment and training of qualified labor force from developed countries to developing countries. In this study, it is aimed to describe the effect of some macroeconomic variables on FDI in Turkey in an econometrical point of view. In this analysis, for the period of 2007*Q1*-2018*Q1,* the effects of economic growth, trade openness, exchange rate, labor cost and environmental taxes on FDI are analyzed by using the Autoregressive Distributed Lag (ARDL). While economic growth and trade openness variables were expected positive on FDI; exchange rate, labor cost and environmental taxes variables were expected negative on FDI. As a result, it is found that the effect of economic growth, trade openness and environmental taxes on FDI were not statistically significant in long-term but, labor cost and exchange rate variables were statistically significant in long-term. In this context, effects of the labor cost and exchange rate on the FDI were found to be negative in the long-term. In addition, the results of Error Correction Model (ECM) reveal that the short-term deviations can be balanced in the long-term.

Keywords: Foreign Direct Investments, ARDL, Coingtegration, Error Correction Model

JEL Code: C22, F21, R11

1. Introduction

The globalization phenomenon, which started with financial liberalization in developed countries in the 1970s, was expanded in the 1980s and 90s by developing countries. This globalization process, which started with financial liberalization, made the countries more affected with each other.

Countries implemented closed-economy policies in the pre-1970's, followed by trade and financial liberalizations have facilitated international capital flow.The international capital, which the countries see as an additional source for faster development, has caused the rapid spread of shocks in the countries which are integrated with the phenomenon of globalization.

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FDI are investments made by investors outside the borders of a country by establishing facilities such as factories, opening branches, real estate or buying an existing company in whole or in part.It is required to draw from the developed countries to the developing countries with the idea of developing the economy such as employment, technology transfer, integration into international markets, development of competitive environment and training of qualified labor force in the medium and long-term. It is considered as an important condition for success in effective investment, job creation, high wages and technology transfer. Therefore, many countries follow many incentive policies to attract FDI (Artige & Nicolini, 2006: 1). In this context, Turkey as one of the developing countries has made many arrangements until today.

Therefore, this study estimated the economic factors that are determinants of FDI inflows to Turkey and these factors' relationship with FDI inflows have been disclosed.

2. The Determinants of Foreign Direct Investments: Theoretical Framework

In the literature, the variables used to explain FDI are quite a lot.The variables used to explain the FDI theories in empirical studies are generally based on the United Nations report "World Investment Report 1998: Trends and Determinants". In this part, the relations of the variables to be used in the analysis with FDI will be explained.

The first is the *size of the market*. Market size is the driver for FDI inflows. At this point, in order to measure market size in econometric studies, Gross Domestic Product (GDP) or GDP per capita is taken as data. It is stated that firms will move towards the markets of large and developing countries with the idea that their investments will be higher and thus make more profit (Jordaan, 2004: 40).

The second is the *trade openness*, which is expressed as the ratio of the sum of exports and imports to GDP. This data shows the speed or potential of the goods and services produced by investors to deliver to the world markets. The degree of trade openness of countries also affects markets in the country. Providing raw materials or intermediate goods in a country that follows limited trade policies will result in higher costs than countries that follow free trade policies (Kravis & Lipsey, 1982: 216). In this framework, the market size and the fewer trade limitations will create an attractive production and marketing area for the FDI (Culem, 1988: 900; Edwards, 1990: 10).

The third is the *exchange rate*. In FDI theories, exchange rate is considered as an indicator that measures competitiveness. This is because the exchange rate affects the competition in the market with income and cost effects. Income effect is positive on FDI but on the other side, the cost effect has a negative impact on FDI. Therefore, the effect of exchange rates on FDI will be determined by the advantages of income and cost effects on each other (Chakrabarti, 2001: 163).

The fourth is *labor cost*. It is generally accepted that the low labor cost is effective on FDI. Firstly, the attractive conditions that will be generated by a reduction in production costs; secondly, high productivity is taken into consideration besides cheap labor. Low

labor costs and high quality labor force are important factors for FDI (Candemir, 2009: 670; Shamsuddin, 1994: 44).

The fifth and last variable is*environmental taxes*. Leonard (1988) explains the impact of environmental regulations on FDI with two hypotheses: "Pollution haven" and "industrial flight". The pollution haven hypothesis explains the FDI flowing towards developing countries through fewer environmental regulations. In the industrial flight hypothesis, investments that flow to other countries are explained due to the tightening of environmental regulations in developed countries (Hansen, 1998: 9-10).

3. The Determinants of Foreign Direct Investments in Turkey

In this study, the effects of growth, trade openness, exchange rate, labor cost and environmental taxes on FDI are analyzed using the ARDL.

3.1. Model, Data and Method

In the analysis, the functional form of the model created to identify the determinants of FDI in Turkey is as follows:

$$\mathrm{FDI}_t = f(GDP, OPEN, REER, LC, ETX) \quad (1)$$

The definitions of the variables included in this function are as follows: FDI=Foreign Direct Investments, GDP=Gross Domestic Product, OPEN=Trade Openness [(Total Import + Total Exports / GDP], REER=Real Effective Exchange Rate representing the exchange rate, LC=Labor Cost, ETX=Environmental Taxes.The logarithmic states of the FDI, GDP, REER, LC, ETX variables were used. Accordingly, the model to be estimated is formed as follows:

$$LFDI = \theta_0 + \theta_1.LGDP + \theta_2.OPEN + \theta_3.LREER + \theta_4.LLC + \theta_5.LETX + \varepsilon_t \quad (2)$$

In the study, the quarterly time series of the 2007-2018 related to these variables were analyzed and the data was taken from The Central Bank of the Turkish Republic, Ministry of Finance and OECD databases.

3.2. Methodology

3.2.1. Unit Root Tests

In the study, firstly stationary analyzes of the time series in the model were performed. A stationary time series is one whose statistical properties such as mean, variance,

autocorrelation, etc. are all constant over time. Otherwise, there is a possibility of false regression problem in analysis with non-stationary series (Gujarati & Porter, 2012: 740, 762). Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests were used to determine the stability of the series.

3.2.2. Autoregressive Distributed Lag

The idea of cointegration was first introduced by Granger (1981) and Granger and Weiss (1983). Then it was developed by Engle and Granger (1987). The difference between ARDL bound test and these methods used in cointegration analysis is that: According to these cointegration tests, series should be stationary at the same level. However, in the ARDL bound test, the existence of a cointegration relationship between series can be investigated regardless of whether the series are I (0) or I (1). Another advantage of this model is that it allows analysis to be carried out with a small number of observations (Narayan & Narayan, 2004: 101-102).

4. Findings and Evaluation

First, the variances of the series were stabilized by taking the logarithm of the non-proportional series before the unit root tests were performed. According to the ADF unit root test results, except for OPEN and LLC variables, the entire series were stationary (I (0)); OPEN and LLC variables became stationary (I (1)) after the first differences were obtained. According to the PP unit root test, except for the LLC variable, the entire series is stationary (I (0)); the LLC variable became stationary (I (0)) after the first difference. Information on ADF and PP unit root tests is shown in Table 1.

Table 1. Unit Root Tests Results

Variables	**ADF**	**Critical Values**		
		1%	**5%**	**10%**
LFDI	-4,3*(0)	-3,58	-2,92	-2,60
LGDP	-4,47*(5)	-4,21	-3,52	-3,19
OPEN	-2,33(5)	-3,61	-2,93	-2,60
LREER	-4,12**(1)	-4,18	-3,51	-3,18
LLC	-2,30(2)	-4,19	-3,52	-3,19
LETX	-1,85***(5)	-2,62	-1,94	-1,61
Δ OPEN	-3,46*(5)	-2,62	-1,94	-1,61
Δ LLC	-4,76*(1)	-3,59	-2,93	-2,60
Variables	**PP**	**Critical Values**		
		1%	**5%**	**10%**

LFDI	-4,34*(1)	-3,58	-2,92	-2,60
LGDP	-5,29*(3)	-4,18	-3,51	-3,18
OPEN	-3,41**(4)	-3,58	-2,92	-2,60
LREER	-3,31***(3)	-4,18	-3,51	-3,18
LLC	-2,49(6)	-4,18	-3,51	-3,18
LETX	-4,35*(3)	-4,18	-3,51	-3,18
Δ OPEN	-8,5*(18)	-2,61	-1,94	-1,61
Δ LLC	-7,11*(5)	-3,59	-2,93	-2,60

Note: (***) 10% significance level, (**) 5% significance level and (*) 1% significance level is statistically significant

After the stationary tests of the series, the existence of the cointegration relationship between the series will be tested with ARDL model and the long and short-term dynamics will be examined according to the results obtained. The model to be used in the study of cointegration relationship was formed according to Akaike Information Criterion (AIC) by taking the maximum lag length 4.

Table 2. Bound Test Results

F-statistic	**Critical Values**					
	1%		**5%**		**10%**	
	I (0)	**I (1)**	**I (0)**	**I (1)**	**I (0)**	**I (1)**
16,56	3,93	5,23	3,12	4,25	2,75	3,79

According to the results of ARDL boundary test F-statistic, which is calculated as 16,56, is higher than the upper limit of 1% significant level shows that there is a cointegration relationship between the variables. In this direction, the long-term relationship between the variables was determined with the help of ARDL model. The long-term results are shown in Table 3.

Table 3. Long-term Coefficients

	Coefficient	**Standard Error**	**t-statistic**
LGDP	1.551645	0.984200	1.576554
LLC	-8.003936*	2.190119	-3.654568
LREER	6.325385*	1.890867	3.345230
LETX	0.159693	0.409999	0.389495

OPEN	-2.212067	2.356868	-0.938562
c	-21.342575	26.777334	-0.797039
@trend	0.158979	0.061061	2.603606

Note: **(*) shows that statistically significant at %1 significance level**

According to ARDL model long-term estimation results; it was determined that labor cost and real effective exchange rate variables had a statistically significant effect on FDI. The long-term results obtained can be summarized as follows:

There is a negative correlation between LC and FDI at 1% significance level. 1% increase in LC reduces FDI by 8%.

There is a positive correlation between REER and FDI at 1% significance level. 1% increase in REER increases FDI by 6%.

In the following part of the analysis, the error correction model based on ARDL model was estimated and short-term dynamics were examined.

Table 4. Error Correction Model Results

	Coefficient	**Standard Error**	**t-statistic**
$\Delta LFDI_{t-1}$	-0.100372	0.128423	-0.781576
$\Delta LFDI_{t-2}$	-0.377135**	0.143140	-2.634732
$\Delta LGDP_t$	0.264308	0.688033	0.384150
ΔLLC_t	-0.604074	1.498654	-0.403078
$\Delta LREER_t$	-3.347884**	1.177509	-2.843192
$\Delta LREER_{t-1}$	0.108537	1.474148	0.073627
$\Delta LREER_{t-2}$	-4.905053*	1.216694	-4.031459
$\Delta LETX_t$	-0.355894	0.219472	-1.621592
$\Delta LETX_{t-1}$	0.160546	0.199873	0.803239
$\Delta LETX_{t-2}$	-0.094753	0.196770	-0.481541
$\Delta LETX_{t-3}$	-0.926497*	0.199818	-4.636698
$\Delta LOPEN_t$	0.320714	1.406388	0.228041
$\Delta LOPEN_{t-1}$	2.280529	1.643611	1.387511
$\Delta LOPEN_{t-2}$	-2.006482	1.549991	-1.294512
$\Delta LOPEN_{t-3}$	2.794801***	1.362087	2.051852
$\Delta @trend_t$	0.130413*	0.042401	3.075671
ecm_{t-1}	-0.820315*	0.123509	-6.641726

Note: (***) 10% significance level, (**) 5% significance level and (*) 1% significance level is statistically significant.

The fact that ecm_{t-1} term, which indicates that whether the deviations in the short-term will be corrected in the long-term, is considered to be 0 to -1 (-0,82) in order to be statistically significant. In other words, it is estimated that the short-term deviations will be balanced in the long-term. The coefficient of the term ecm_{t-1} refers to the balance speed of the deviations in the short-term.

5. Conclusion

According to the findings, it was found that REER and LC were statistically significant on FDI, it was observed that there was a positive relationship with REER and a negative relationship with LC in the long-term. It can be said that the weight of the use of imported inputs in the production of FDI is high because FDI inflows to Turkey negatively impacted by exchange rate increases (in other words, positively impacted by REER increases). According to this result, it can be said that FDI inflows to the country are not export-oriented but oriented towards the national market. Therefore, the decrease in the exchange rate may increase the supply of goods and services to the national market by reducing the imported input costs.

LC is an important factor especially for FDI who want to do business in the manufacturing sector. At this point, the labor cost is repulsive; labor productivity is an attractive factor.According to the findings, there is a negative correlation between LC and FDI at 1% significance level. 1% increase in LC reduces FDI by 8%.

In this context, public spending in Turkey can be channelled to well-structured education and health services in order to remove the negative effects of labor costs on FDI. Improving human capital can also help attract technology-intensive FDI to the country.

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ADMINISTRATIVE OBJECTION IN CUSTOMS CODE

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Abstract

In Article 242 of the Customs Code under the section “Objection”, objections against the administrative decisions customs tax and penalties and the administrative decisions are regulated. This administrative appeal contained in the Customs Law Act is generally accepted as a mandatory administrative objection in the case-law of the higher courts, in the administrative practice and in academic studies on this subject. When the secondary legislation on the said provision is examined, it is understood that this practice contradicts both the basic principles of administrative jurisdiction and the fundamental human rights. Thus this administrative application affects the taxpayer's right to access to court directly. Property right of the taxpayer is also affected inderectly because of the interest of default the extended administrative and legal process may cause.

As a result of this study, the conclusion that the existing provision has been misjudged by the administrative and judicial bodies. It is accepted as a mandatory way yet the regulation in the Customs Code clearly shows a discretionary application path. Subsequently, the reference to Article 10 of the Administrative Procedure Code as the source of the regulations in the secondary legislation relating to the provision is wrong in our opinion. Because in act 10 of this code, is an provison for situations where administrative bodies does not establish a procedure. However, this administrative objection contained in the Customs Code only can be made against an administrative action by the customs administration. In the light of these findings, it is emphasized that the fundamental rights of individuals may be violated. Because the prolongation of the administrative objection, the right to access to the court of the taxpayers is violated.

Keywords: Customs Tax Law, Administrative Objection, Administrative Application

JEL Code: K23, K34

1. Introduction

In Article 242 of the Customs Code, the administrative objections against customs tax and penalties andadministrative decisions are regulated. This regulation is considered to be a mandatory administrative objection, which must be completed before opening a lawsuit in both the doctrine and the high judicial decisions. For this reason, the administrative appeal process envisaged by the Customs Code has a direct impact on the rights of individuals. The failure to file an administrative appeal shall also prevent the prosecution. For this reason, it is important to clarify the procedure to administrative appeal. In this context, the scope of the study is toclarify administrative objection

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institution which is regulated under Article 242 of the Customs Code and secondary legislation, particularly the Customs Regulation.

Within the scope of this study, the legal framework of the regulation in the Customs Law will be tried to be drawn, not only the provision, but also the secondary legislation concerning the provision. Next, the elements of this administrative remedy and the problems it creates in the legal order will be discussed. These are respectively; the element of necessity, the implementation of the additional period that the administration may take at the point of responding to the applications and the attributions to other regulations. Finally, these regulations will be examined within the framework of fundamental rights and freedoms.

2. Legal Framework of Administrative Objection in Customs Law

The administrative objection in the Customs Code is regulated by Article 242 of the Law. In accordance with paragraph 2 of the article, within 30 days following the administrative objection, the customs directorate must respond to the objection. However, according to Article 586 of Customs Regulations in cases where no decision can be taken within thirty days, the second paragraph of Article 6 of the Code shall apply. According to the Article 6/2 of the Customs Code, if it is not possible for the customs administration to comply with the period set forth in the law, it is arranged that the contracting authority should inform the applicant of the rightful reason for the exceeding the period and the additional period they deem necessary.

In the circular published in 2014 on the issue of responding to the administrative appeal by the General Directorate of Customs, the issue of determining this additional period is regulated. In the said Circular, the provision on which the additional period shall be based is shown as Art. 10 of the Procedure of Administrative Justice Act (PAJA). Again, according to the Circular and Art. 10 of PAJA, this extended period shall be determined not to exceed 6 months from the date of application. On the other hand, even if the additional period was used, since the applicants could not obtain a definite result within 30 days, they can file a lawsuit according to the provision of 10/2.

3. Assessment of the Legal Structure

3.1. Assessment on Obligation Element

Although Article 242/1 of the Customs Code explicitly provides for an arbitrary objection, the opinion of the Council of State and the circulars issued by the Ministry of Customs and Trade provide the opinion that the said provision is an administrative remedy which must be exhausted (Koban & Ercan, 2017: 24).

When the reason of the provision is examined, it can be seen that an explanation cannot be made in terms of the necessity of the administrative appeal. When interpreted as a verb clause, it is understood that a mode is used which refers to probability (Kağıtcıoğlu,

2017: 246). Considering the literal meaning of the provision, it should be accepted that the administrative objection path set out in Article 242 is arbitrary. In some of the decisions made by the local courts recently, the case law has also started to emerge that it is not mandatory (Sarıaslan, 2018: 361).

3.2. Assessment on Extention

When Article 242 of the Customs Code and secondary legislation examined, it is seen that when objection can not be replied within 30 days, additional time can be taken by the administration, this additional period can not exceed 6 months due to the regulation in PAJA Art.10. This understanding of the circular is open to discussion. Because the six-month period referred to in Article 10 is not a limitation for an additional period that the administration may receive at the point of response to the reply. The six-month period was set for the purpose of limiting the period during which individuals may take to wait the administrative authority's final decision. Other kind of understanding, will be contrary to the verbal interpretation of the provision which dictates as "waiting period can not exceed 6 months".

3.3. Assessment on Atributions to Customs Code Art.6 and Code of Administrative Prosedure Art. 10

When the legal framework of the administrative objection path in the Customs Code is taken into consideration, in the case of determining the limits of the additional time provision ther is an atribution to Art. 6 of the Customs Code and another atribution to PAJAArt. 10 for the application procedure and in the period of the reply. PAJAArt. 10 regulates the applications or objections in the absence of any action previously established in the same subject. On the other hand, PAJAArt. 11 regulates administrative objections to an administrative act established on the relevant branch orto remove of the administrative procedure.

If there is an administrative procedure in the middle of the case, PAJAArt. 10 cannot be applied, in this case it is necessary to go to Art.11 (Sancar, 1990: 82). It is stated that if there is an obligatory objection procedure PAJAArt. 11 can not be implemented. However, it can be understood from the expression of Customs Code Art. 242 this objection is not a obligatory administrative appeal. Therefore, the additional time element is incorectly based on Customs Code Art. 6 because of the incorrect identification of the necessity of the administrative objection in question.

Another point to be discussed at this point is whether the customs tax and penalties subject to the administrative objection are a revocable administrative action. Because administrative procedures can only be subject to the case when they are absolute and executive (Candan, 2006: 71). The absolutity and executivity of the administrative procedure shall mean that the administrative unit and body which regulate the procedure, does not need consent or approval of another administrative units and other bodies of the state (Atay, 2012: 425; Erkut, 1990: 119). Customs procedures, however, are mostly those that are required by customs legislation in the customs administration

and they should be accepted as one-sided and individual procedures of the administration (Sarıaslan, 2018: 348). When the customs taxes and penalties which are the subject of administrative objection mentioned in Art. 242, there is no doubt that these are the unilateral and individual procedures of the administration. Considering that the taxes and penalties imposed by the customs administration do not need to be submitted to the approval of another administrative authority for the acquisition of law in the legal order, these administrative procedures should be considered to be absolute andexecutive. Therefore, these procedures of the customs administration may be subject to litigation.

3.4. Assessment on Fundamental Rights and Freedoms

The mandatory administrative objection regulated by the Customs Code, must be understood clearly as it is linkedright to legal remedy since the necessity of exhaustion before the judicial system and the possibility of the loss of the right because of the complete closure of the judicial pathif the time is missed. This procedure is also linked to the right of property, which is one of the the most basic rights of the individuals, since the customs duties and penalties that constitute the subject of the administrative objection can effect individuals property.

In the first part, wher the legal framework is tried to be drawn. As seen administrative objection is not regulated by a single law and the application of the provisions of the Customs Code, as well as the provisions of the PAJA, the Ministry of Customs and the Council of State and this prosedure shaped by the case law. It is contrary to the Constitution that the way of mandatory administrative appeal is regulated in law in a complicated way which may cause the individuals to lose their rights in a way mentioned in the reason of the provision of Art. 40/2 of the Constitution.

The administrative objection in the customs law should also be examined within the framework of the right to legal remedy. Because, the government draws an administrative procedure to be consumed before jurisdiction and creates a temporary obstacle in the stage of going to the judiciary. The European Convention on Human Rights does not explicitly regulate right to legal remedy. However, it is to be considered part of the ECHR under the right to a fair trial and the right to effective remedywhich are regulated by articles 6 and 13. In Article 36 of our Constitution, the right to legal remedy is guaranteed. This freedom is not only in the execution of the lawsuits filed but also in the freedom of individuals to go to the judiciary when there is not a case yet opened (Öztürk, 2015: 78).

The mandatory administrative appeal procedure limits the access of individuals to the court within the framework of freedom of rights. These restrictions are brought with the provisions regulating who can take legal action within each country's internal legislation (Aydın, 2013: 278). However, these limitations should not be touched on the essence of the right and should be arranged in a way that does not eliminate the purpose of existence (Kaşıkçı, 2017: 548). Parallel to this, it is said that the right of access to court by the Constitutional Court is not an absolute right, but it is violated if limitations

regulated by the state determines absolute and strict time restirictions and these limitations are too complex and discouraging.

4. Conclusion

It is necessary to accept that the administrative objection path in Article 242 of the Customs Code is a discretionary administrative remedy, taking into account the nature of the literary meaning of the provision. When we look at Article 6 of the Customs Code with the guidance of Article 586 of the Customs Regulation, it is said that the period specified can be exceeded if it is not possible to comply with the period by the customs administration. There is no clarity as to how this additional period in this provision is determined and its limits.It is observed that this additional period was based on PAJAArt. 10by the circular of Ministry of Customs and Trade. On the other hand, PAJAArt.10 is a provision that regulates the applications that will be made to the administration for the purpose of establishing a procedure in the lack of any. When we look at the Customs Code, it is seen that there is already a customs tax or penalty established, and that taxpayers apply to the administration against this administrative process. For these reasons,the regulation mentioned in the Art. 10 is cannot be the root of administrative objection. As can be seen, there are many contradictions in terms of the elements of the administrative objection procedure in the Customs Code. The fact that these contradictory statements and practices are not eliminated by the legislator leads to the destruction of basic human rights such as taxpayers' right to legal remedy and the right to property.

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A DIFFERENT ATTEMPT TO READ THE DISCLOSURE MECHANISM: REVIEW OF DISCLOSURE ASSESMENT COMMISSION IN TERMS OF PUBLIC LOSS

Selin OVALIOĞLU[1]

Abstract

The purpose of this study is to determine the rights and obligations of the disclosure assessment commissions and to dispute their responsibility to compensate if the disclosure mechanism is operated in contradiction with the law. In this context, firstly, the conditions sought for the emergence of public loss in terms of the imposition, accrual, and collection of public revenues and the financial responsibility of public boards, committees, and commissions are examined and then, the results arising from the determination of public loss briefly discussed. In the second section, general information about the disclosure assessment commissions is given. In the third section, it is aimed to determine the rights and obligations of the disclosure assessment commissions and therefore the scope of their responsibility. Finally, the cases that can cause the public loss due to the decisions of the disclosure assessment commissions are discussed.

Keywords: the disclosure assessment commissions, the disclosure mechanism, public loss, the financial responsibility of administration

JEL Code: K19, K34, M41

1. Introduction

In order to reducethe costs of tax compliance, Article 370 of Tax Procedure Law No.213was revised in 2016 toestablishthe disclosure mechanism. According to the new system, if the taxpayer's disclosure is accepted by disclosure assessment commission, the former shall not be subject to a tax audit or an assessment via value assessment commission within the confines of the taxpayers' disclosure. On the contrary, ifthe taxpayers' disclosure is not accepted by the disclosure assessment commission, the taxpenalty shall be assessed at 20% instead of 100% of the tax base that has or could have been evaded.However, Article 370 of Tax Procedure Law No. 213 does not specify what will happen if disclosure assessment commissions use (willfully or bydefect or negligence) their margin of appreciation against the law and prevent any assessment of tax or cause an assessment of tax penalty at a lower rate.

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Based on the authorization given by the Law, the disclosure assessment commissions were established by the General Communiqué no. 482 (Communiqué no. 482). According to Communiqué no. 482, these commissions are entitled to provide for the preliminary determination of the cases where there are any signs of tax loss, to determine the taxpayers who will be invited to disclose certain information related to suspected tax loss and to evaluate their explanations. In cases wherethe disclosure assessment commission breaches the lawwillfully or by defect or negligence, the loss of the public income due to the tax loss of the Treasury may occurin theory. However, when the regulations regarding the disclosure mechanism are examined carefully, it will be seen that the cases, where public loss may occur, are quite limited.

2. Identification of Public Loss

2.1. The Notion of Public Loss

According to Article 71 of Public Financial Management Law No. 5018 (Law No. 5018), the definition of public loss is to cause the decrease or prevent the increase in public resource as a result of decisions, acts or actions contrary to the law which are committed willfully or by defect or negligenceby public officials (Şişman, 2017: 93; Akyilmaz, 2015: 44). Even if it is not explicitly included in Law No. 5018, it is necessary to establish a causal link between the action of the public official and the public loss (Hepaksaz & Şahin İpek, 2018: 922). The fact that public revenues are not assessed and collected in accordance with the law is one of the cases that are specifically listed in Article 71 of Law No. 5018 ascausing public loss (Law No. 5018, Article 71 / II / e).

2.2. Financial Accountability of the Board, Committee or Commissions for Accrual and Collection of Public Revenues

Per Article 38 of Law No. 5018, public officials who are authorized and charged with imposition, accrual, and collection of public revenues are responsible for the public loss. Whilst the accountability status is regulated, the scope of accountability is not (Üstün et al., 2011: 382). It can be said that those who act against this rule of accountability are obliged to indemnify public loss (Turguter, 2015: 306). Article 7/III of the Court of Accounts Law No. 6085 also requires a causal link between decisions, acts, and actions of the public officials and the public loss in order to rule about the indemnification.

However, the determination of causal link in case of public officials acting on boards, committees or commissions is complicated. Article 31 of the Law No. 5018 clearly sets forth the responsibility arising from the public expenditures made by the decision of the board, committees or commissions. However, there is no clear regulation for the financial responsibility of public officials acting on boards, committees or commissions in case of illegal imposition, accrual, and collection of public revenues. If Article 8 of Law No. 5018 is interpreted in tandem with Article 31 of Law No. 5018, the boards, committees or commissions seem to be liable for the amount of public revenue which

is not obtained due to the decision of the boards, committees or commissions (Üstün et. al., 2011: 385).

2.3. Legal Consequences Arising From Determination of Public Loss

The public loss can be determined as a result of control, inspection, audit, the judicial review of Court of Accountsor other judicial and administrative proceedings (Hepaksaz & Şahin İpek, 2018: 924-926). As per Article 71 of the Law no. 5018, public loss determined as a result of control, inspection, audit, the judicial review of Court of Accountsor other judicial and administrative proceedings shall be collected from the relevant persons with the interest to be calculated according to the relevant legislation as of the date of public loss.

Court of Accounts can act both as an audit organ on behalf of the Grand National Assembly and as a judicial power (Kaneti, 2011: 28). If Court of Accounts determine the responsibility of the boards, committees, and commissionsby acting as a judicial power (Üstün et al., 2011: 385), public loss should be demanded with the claim of unjust enrichment from third parties (who are not addressed by Court of Accounts during proceedings) before claiming the responsibility of public officials for accountability (Uzun Çam, 2018: 24).

3. Invitation to Disclosure Mechanism

3.1. Legal Framework and the Nature of Invitation to Disclosure Mechanism

Invitation to disclosure mechanism was introduced by Article 22 of Law Amending the Law No. 6728 on Amendments to Certain Laws for the Improvement of the Investment Environment. According to the general rationale of the said Law, the purpose of the invitation to disclosure mechanism and other amendments to the law is to increase the predictability of taxation and to reduce compliance costs.

Pursuant to the Article 370/IV of the Tax Procedure Law No. 213, the Ministry of Finance shall determine the details of the invitation to disclosure mechanism. Accordingly, the Ministry of FinancepublishedCommuniqué no. 482 and identified many issues related to the invitation to disclosure mechanism such as requirements of the invitation to disclosure and establishment of disclosure assessment commissions. Doctrinally, this mechanism is considered as an administrative amicable solution (Oktar, 2018: 425) or as the preparation process of the accrual (Öncel et. al., 2018: 105) or as *sui generis* activity likecollection of information (Başaran, 2017: 83-85; Rençber, 2018: 138).

3.2. Requirements of Invitation to Disclosure Mechanism

Article 370 of Tax Procedure Law requires a preliminary determination by the competent authorities about the existence of certain signs indicating tax loss in order to operate the invitation to disclosure mechanism. Although Article 370 of the Tax Procedure Law

No. 213 provides no restrictions other than tax evasion (except for the use of counterfeit invoices up to a certain monetary limit), Communiqué no. 482 lists 16 caseswhen the taxpayers can be invited to the disclosure assessment commission and thus, limits the scope of the invitation to disclosure mechanism.

3.3. Legal Consequences of the Invitation to Disclose

If it is concluded that the taxpayer, who is invited to disclose information, does not cause the tax loss, the taxpayer will not be subject to any further tax audit and will not be referred to the commission of appreciation (Oktar, 2018: 425). Ifthe taxpayers' disclosure is not accepted by the disclosure assessment commission, the taxpenalty shall be assessed at 20% instead of 100% of the tax base that has or could have been evaded.Differently from Article 370 of Law No. 213, Communiqué no. 482 providesthat it is possible for taxpayers who are invited to disclose information to benefit from a 50% discount while assessing their tax fine if they submit their declaration within 15 days. It can be said thatthis opportunity is set out in the third paragraph of Article 344 of the Law No. 213 (Rençber, 2018: 142). There is also an opposing view claiming that the public loss will be incurred if the taxpayersare invited to disclose even though they do not meet said requirements and thus, benefit from a discounted rate (Başaran, 2017: 32).

4. Rights and Obligationsof the Disclosure Assessment Commissions

The disclosure assessment commissions are regulated by Communiqué no. 482. According to said Communiqué, it was decided to establish an adequate number of disclosure assessment commissions under the Revenue Administration and also Board of Tax Audit. These commissions are obliged to make a preliminary determination regarding tax loss and to evaluate the disclosures of taxpayers who were invited to disclose. As it is understood from Communiqué no. 482, the commissions will not be required to make any efforts to come up with a preliminary determination and they will determine through the information and documents provided to them (Başaran, 2017: 89).

5. Problems on Determination of the Public Loss Arising from the Decisions of the Disclosure Assessment Commissions

In a case where imposition, accrual and collection procedures of public revenues are not made in accordance with the lawas a result ofthe decisions of disclosure assessment commissions, in theory, the public loss may arise due to imposition, accrual, and collection of tax penalty at a lower percentage. The first scenario where the public loss may arise is when a taxpayer, who does not meet the requirements of the invitation, is invited to disclose and said taxpayer is fined with a penalty of 50% of the amount of tax loss instead of 100%. The second scenario is when the disclosure of a taxpayer, who

does not meet the requirements, is accepted and said taxpayer is fined with a penalty of 20% instead of 100%.

In the first scenario, it is doubtful whether there was a situation contrary to the law in terms of Article 344 of Tax Procedure Law No. 213 (Rençber, 2018: 141). Firstly, the rights and obligations of the disclosure assessment commissions are limited to the determination of taxpayers who will be invited to the disclosure and assessment of their explanations. Hence, the taxation shall be carried out by the tax administration. At this stage, it is possible for tax administration to carry out ageneral tax audit except for the issue subject to disclosure mechanism and continue with additional or *ex officio*tax assessment. It is important to pay attention to this distinction if and when Article 38 of Law No. 5018 is applied.

In addition, it is very difficult to determine the existence of will, defect and negligence because it will require a re-examination of all the information and documents offered by the taxpayer to the disclosure assessment commissions. Such a review of the public lossallegedly caused by the disclosure assessment commission may possibly lead to allegations regarding violation of trade secrets orviolation of tax privacy. Similar concerns were brought up for reconciliation commissions(Şişman, 2017: 194). Finally, it would be difficult to determine the non-compliance of the decisions of the disclosure assessment commission with the law and consequently the public loss. In Turkish, "the law" is a general expression and in this case, itrefers toboth Tax Procedure Law No. 213 and Communiqué no. 482. It is highly improbable to determine the illegality when these two regulations accommodate conflicting provisions.

6. Conclusion

The financial responsibility of the administration is a requirement of the rule of law (Öncel et al., 2018: 42). Therefore, the disclosure assessment commissions, which determine the taxpayers to be invited to present information and examine it,should be subject to high accountability standards in accordance with the principle of the rule of law. In this context, it has been concluded that the vague scope of the disclosure assessment commissions' duties and responsibilities may lead to certain difficulties in determining their financial responsibility.

On a side note, if the Court of Accounts rules on the existence ofthe public loss as a judicial organ due to the decisions of the disclosure assessment commissions, the State may not request the public loss directly from the disclosure assessment commissions. In this case, there is a possibility thatthe public loss may be demanded with the claim of unjust enrichment from the taxpayer responsible for the tax penaltybased onArticle 49 of the Turkish Code of Obligations (Özçelik, 2012: 15). If the taxpayer is expected to pay the tax penalty, which is determined as a public losswithout relying on a final judgment, a tax audit report or an appraisal committee decision, it will be contrary to the principle of legal security, a subprinciple of the rule of law.

In conclusion, this theoretical study regarding disclosure assessment commissions aims to show the need to make fundamental changes to Turkish system of tax penalties in

order to terminate the discussions regarding the constitutionality of the invitation to disclosure mechanism as well as the possible debates on the financial responsibility of the disclosure assessment commissions. For the purpose of guiding the revisions, for example, in France the right to legal remedies is granted prior to *exofficio*tax assessment and it is decided to deduct 10%, 40% or 80% of the tax loss depending on the nature of the tax loss (Code Général des Impots, Art. L. 1729-17930; Guttman, 2011: 43-49). It can be said that a similarprovision would be more accurate both in terms of the principle of personality and legality of the fines.

In this context, Article 7 of the Regulation on the Procedures and Principles Regarding Tax Audit may be amended to include a process of disclosure if necessary, before initiating a formal tax audit provided that the period of such exchange of information will be limited. Accordingly, the taxpayer may also benefit from other amicable/administrative solutions since no tax audit has been initiated. Moreover, the taxpayers' right to be heard is also recognized during the tax audit, as it was recognized in front of the Report Evaluation Commissions in accordance with the Article 140 of the Tax Procedure Law No. 213 (Kaşıkçı, 2017: 200).

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ASSESSMENT OF A RECENT STATE COUNCIL DECISION ON ADDITIONAL CUSTOMS DUTY

Yetkin Kaan GENÇTÜRK[1] **Mevlüt UZUNÖNER**[2]

Abstract

According to Article 73 of the Constitution, although taxes, fees, duties, and other such financial obligations can only be set by law, the executive authority shall be authorized to change the rates in such areas within the upper and lower limits specified by the law. On the other hand, pursuant to paragraph 2 of Article 167 of the Constitution, the executive may be empowered by laws to impose additional financial impositions for imported goods in order to regulate the foreign trade for the benefit of the country's economy.

In the study, additional Customs Duty imposed by the Decree No. 2015/7713 of Council of Ministers, claims during judicial process completed with the decision No. 2017/6611 of The 7th Chamber of the Council of State and the approval decision No. 2018/946 of Assembly of Tax Courts on request of appeal, the defense of Ministry of Economy and judgment of the Court, the principle of legality of tax and the scope of the exemptions regulated in the Constitution on the basis of legal regulations under the issue were examined.

In this context determinations made in the trial process and regulations on which those were grounded, especially "additional customs duty" conceptwhich is subject to proceedings, the scope and the legal nature of this concept, the decision of the court through some exemplary regulations of the executive has been criticized and evaluated as a result.

Keywords: Additional Customs Duty, Additional Financial İmpositions, Decreeof The Council of Ministers, Tax Rate

JEL Code: K34, E62, H22.

1.Introduction

According to the Constitution, we can say that the taxation can only be made by the legislative authority, and that the executive body can be empowered to amend the rate of taxes within the upper and lower limits specified in the laws, yet the authority to impose additional financial impositions other than taxes and similar obligations to be

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collected from import, export and other foreign trade transactions can be transferred to the executive body by laws.[12]

It is observed that the executive body, which has the authority to impose financial obligations on imported goods with a constitutional basis, entitles additional financial impositions to be imposed by its current decisions in this context as “additional customs duty” and; in our study by choosing an exemplary decree of the Council of Ministers subjected to annulment suit and by assessing the relevant Decree by its characteristics within the limited scope of the current jurisprudence and examining it with the attitude of the executive, it is aimed to offer an insight to future regulations and judicial decisions.

In this context, first the relevant Council of Ministers' decree shall be explained, then the relevant legal legislation shall be mentioned, and finally, the legal characterization of the present Decree shall be made by summarizing the judicial process.

2. The Facts

2.1. Decree of the Council of Ministers No. 2015/7713

Pursuant to the annex of the Decision dated 20/12/1995 No. 95/7606 Decree of the Council of Ministers No. 2015/7713, published in the Official Gazette numbered 29379 of 7 June 2015 and entered into force on the same date and as annexed to it “Additional Decision to the Decision of Import Regime”, it has been decided to collect “additionalcustoms duty” at 30% from certain goodswhich hold an ATR Movement Certificate and which originate outside Turkey or the European Union, and at 10% from components and parts of the goods.[3]The regulations of the above-mentioned decree, which are important in terms of the communiqué are listed below. According to this, it has been concluded that;

- total tax rate calculated by the inclusion of additional customs duty imposed in accordance with the 2nd paragraph of the 2nd article of the Decree to current taxes cannot exceed the rates increased by 50% set out in the Law on Customs Entry Tariff Schedule No. 474, and in case of an exceeding, 50% increment in rates set out in Law No. 474 shall apply,

1 The above definition has been made according to the 3rd and 4th paragraphs of the 73rd article and 2nd paragraph of the 167th article of the Constitution of the Republic of Turkey which was adopted by Law no. 2709.

2 During the period of the Judicial Decisions on the Decree of the Council of Ministers to be examined, the executive body was referred to as the Council of Ministers. In order to avoid confusion we considered it appropriate to use the term “Executive Body” instead of using President or Councl of Ministers except for the articles directly taken.

3 For detailed information on the related goods and additional parts of the goods subject to additional customs duties see: http://www.resmigazete.gov.tr/eskiler/2015/06/20150607-4-1.pdf.

- by the customs office, within the 3rd paragraph of the same article additional customs duty shall be collected separately from import taxes and other financial obligations to be recorded as income to general budget,
- within the 4th paragraph of the same article, rules and procedures which the customs duty is subject to shall be applied to additional customs duty to be collected,
- within the 1st paragraph of the 3rd article of the Decree, customs duty shall be collected at the rate set out in the section of "Other Countries" for relevant goodswhich hold an ATR Movement Certificate and which originate outside Turkey or the European Union, yet under Free Trade Agreements which Turkey is a party to, additional customs duty shall not be collected from the goods which are included in a cross cumulation system of origin in case of its certification of preferential origin,
- Finally, in accordance with Provisional Article 1 of the Decree, the provisions of this Decree shall not be applied in case bill of entry concerning the importation of the goods loaded before the publication date of this decree is registered one month after the publication date of this decree at the latest.[1]

3. Legal Basis of the Council of Ministers' Authority

3.1. Constitutional Bases and Relevant Legal Regulations

3.1.1. Legal Regulations concerning the 4th Paragraph of Article 73 of the Constitution

According to the 3th paragraph of Article 73,*"Taxes, fees, duties, and other such financial obligations shall be imposed, amended, or revoked by law."* According to the 4th paragraph of the same article, *"The President of the Republic may be empowered to amend the provisions concerning the percentages of exemption, exceptions and reductions in taxes, fees, duties and other such financial obligations, within the minimum and maximum limits prescribed by law."* When the two paragraphs are assessed together, it could be said that even if fees, duties and other financial obligations in addition to taxes can only be regulated by legislative body, in case the executive body is authorized (Güneş, 2014: 198) it shall have the authority to amend the percentages of exemption, exceptions and reductions of the same financial obligations, within the minimum and maximum limits prescribed by law.

In this context for example, the authority to grant exemption from customs duties to be collected from certain[2] tax-payers and other taxes, fees and duties is given to the executive under the 2nd article of Law No. 3283.

1 For a detailed study on this issue (certainity/predictability of tax), see Cenker Göker, "Dış Ticaret İşlemlerine Konulan Ek Mali Yükümlülüklerde Öngörülebilirlik İlkesi Üzerine Bir Deneme", *Ankara Barosu Dergisi*, 2013-1, s. 115-124.

2 Taxpayers mentioned in Article 1 of Law No. 3283.

Another example is; in compliance with the 2nd article of the Law on Customs Entry Tariff Schedule No. 474 without prejudice to the provisions of international agreements which Turkey is a party to, the executive is empowered to increase customs duty rates and percentages of the goods listed in Customs Entry Tariff Schedule up to 50%, to reduce them down to zero or to increase rates and percentages in the Schedule up to 50%

3.1.2. 2nd Paragraph of the 167th Article of the Constitution

An exception to the principle of legality of the tax regulated in the Constitution was introduced in paragraph 2 of Article 167 titled as *"Supervision of markets and regulation of foreign trade"*. According to the article, the executive can be empowered to impose and abolish additional financialimpositions[1] except taxes and other similar obligations on import, export and other foreign trade transactions. However, this authority may be granted only by law and for the purpose of regulating the foreign trade on behalf of the country's economy (Öztürk, 2016: 65-66). It is necessary to underline that the authority granted here is more comprehensive than the authority granted under 4th paragraph of Article 73 (Oktar, 2018: 34). Moreover, additional financial impositions are excluded from taxes and similar financial obligationspursuant to the provision (Kaneti, 1989: 7-8).

In this context, Law on Regulation of Foreign Trade No.2967[2] can be given as an example. Because the law sets out in the first three articles respectively the rules and procedures of exercise of the authority given to the executive by the Constitution to impose and abolish additional financial impositions except taxes and other similar obligations on import, export and other foreign trade transactions for the purpose of regulating the foreign trade on behalf of the country's economy and the authority to specify principles concerning these obligations.

3.2. Relevant International Legislation

The ratification act on the approval of the Agreement establishing World Trade Organization was published in the Official Gazette No. 22186 of 29 January 1995. In accordance with this Agreement and the Protection Measures Agreement attached to it, in order for a Member State to impose an additional tax under the motive of protection measure in imports, the Member State is required to propound that increased imports have produced serious damage to domestic manufacturers, thus to carry out an investigation according to the procedure provided for in the Protection

1 On additional financial impositions not being different from tax and similar financial obligations see: S. Ateş Oktar, "Vergi Benzeri Mali Yükümlülükler Ek Mali Yükümlülükler ve Bir Totolojik Düzenlemenin Analizi", *İ.Ü İktisat Fakültesi Maliye Araştırmaları Konferansları*, 37.Seri, 1996/1997.

2 In the Constitutional Court, an action of nullity was filed against the law, but the case was rejected by majority. For decision, see: http://www.kararlaryeni.anayasa.gov.tr/Karar/Content/85416187-8c0d-4398-a4e5-cf4794d5a54d?excludeGerekce=False&wordsOnly=False

Measures Agreement and to reveal this threat of serious damage as a result of this investigation.[1]

4. The Attitude and the Judgment of the Court

In this section the judicial process will be explained in essence through claims, defenses and Court's assessment as the main points of dispute. Within this framework in its lawsuit petition the demandant claimed that;

- the additional customs duty was contrary to the principle of legality of the tax regulated under Article 73 of the Constitution,
- the Council of Ministers did not have the authority to impose additional financial impositions,
- no customs or equivalent tax could be imposed on the goods which hold an ATR Movement Certificate,
- additional customs duty on high-tech products was contrary to public interest and international commitments of our country.

The Ministry of Economy, in his defense claimed that;

- the matter in dispute was established in order to protect the domestic branch of production within the authority given pursuant to Article 73 of the Constitution and Article 2 of Law No. 474,
- additional customs duty was not a new version of customs duty or additional financial obligation or a means of defense of trade policy,
- additional customs duty was not subject to the rules and procedures of investigation laid down in the annexment of WTO Establishment Agreement, Protection Measures Agreement, as it was subject to the rules and procedures which customs duty was subject to and thus was a customs duty in nature.

  The 7th Chamber of the Council of State concluded in its decision No. 2017/6611 that;

- additional customs duty was not contrary to the principle of legality of tax since it was not a new tax and it was an amendment to current customs duty

1 See: Law No. 4067 entered into force upon publication in the Official Gazette dated 29.01.1995 and approuved by this Law The World Trade Organization Establishment Agreement signed on April 15, 1994 and the articles 1, 2, 3, 4, 5, 7, 9 and 12 respectively of its annexement Protection Measures Agreement signed on April 15, 1994.

rates based on the authority given to the executive pursuant to Article 2 of Law No. 474,

- additional customs duty was not contrary to the principle of certainty of taxation due to the fact that the possible amendment by the executive was specified clearly in the relevant law,
- as applicable additional customs duty rates was set out taking account of countries where dual or cross cumulation system[1] were applied under free trade agreements, since additional customs duty defined only as an amendment to current customs duty rates could not be considered as protection measure which is one of the additional financial impositions or means of defense of trade policy, the relevant decision was not contrary to national or international legislation as it was not subject to the rules and procedures of investigation laid down in the annexment of WTO Establishment Agreement, Protection Measures Agreement.

In the petition where the decision of the 7th Chamber of the Council of State was appealed; it was claimed that;

- the necessary steps were not taken based on the recognition that the Ministry had resorted to protection measures for the purpose of protecting domestic production due to serious import increase concerning the goods in dispute,
- by referring the regulation as a new tax burden, it was contrary to the principle of legality of the tax.

Assembly of Tax Courts approved the decision of the Chamber with the same legal reasons and justification. In the justification of its opposing vote it was concluded that;

- the resolution of the dispute was bound to the specification of additional customs duty's nature which was imposed,
- in the letter of the regulation the term "additional" was used,[2]
- new rates were determined as additional rather than increasing the current rates,
- a new tax was imposed rather than an amendment to the tax rates due to the fact that additional customs duty was collected separately from customs

1 For the definitions see: https://ab.gtb.gov.tr/ab-ile-iliskiler/mense-kurallari/mense-kurallari-ve-uygulamalarina-iliskin-soru-ve-cevaplar

2 For the opinion that even the use of the word "additional" may cause violaion of the principle of "certainty of taxation" see: Mualla Öncel/Ahmet Kumrulu/Nami Çağan, Vergi Hukuku, 26.Baskı.,Ankara, Turhan, 2017, s. 48.

duties and other financial obligations to be recorded as income to the general budget.

5. Conclusion

In conclusion, as it is seen in the relevant decisions of the executive, we can say that the executive deems the term additional customs duty under the authority to increase tariff rates given by the Law No. 474.

Another argument which can be included in this context is the 2nd paragraph of Article 167. According to the article, by law the executive can be empowered to impose and abolish additional financial impositions except taxes and other similar obligations on import, export and other foreign trade transactions for the purpose of regulating the foreign trade on behalf of the country's economy. In other words, the executive can impose additional financial impositions except taxes and other similar obligations on import only with an authority explicitly given by the relevant law. It is evident that this authority is not given by Law No. 474, but by Article 3 of Law No. 2976 entitled "Additional financial impositions."

Therefore, even though the decision No. 2015/7713 was considered as relevant to Article 73 of the Constitution both by the Ministry of Economy[1] and 7th Chamber of the Council of State and Assembly of Tax Courts, as stated by the Council of State Prosecutor in the Decree no. 2017/6611 of the 7th Chamber of the Council of State, imports of small household appliances increased by 24% from 2012 to 2014. Although the additional customs duty imposed due to the increase in imports by the decision subject to the lawsuit can be considered as a customs duty in the sense that it is collected separately by other customs duties and it is imposed with a tariff schedule, since it contains a protection measure under WTO legislation the Court was required to decide on the issue taking account of Turkey's international commitments.

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1 With the Decree-Law No. 703, the Ministry of Customs and Trade and the Ministry of Economy are combined under the Ministry of Commerce.

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COMPARISON OF MERCHANT-ARTISAN FROM TRADE AND TAX LAW

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Abstract

Real person revenues occurs; coomercial gains, agricultural gains, fees, self employment, real estate properties, movable rentals and other earnings and revenues. The distinction between the merchant and the artisan is considered as a distinction made within the component of the commercial gain. This distinction, as a rule, quantitative limit is put; large-volume traders are named merchant, the others are called artisan. The distinction between merchants and artisans is noteworthy as the distinction to which many important rulings are attached to the conclusions of tax and commercial law. In general, it is observed that, while more responsibility is imposed on merchants, artisans are more likely to seek protection. In the study, trade law and tax law will be compared in terms of merchant-artisan discrimination and it will be investigated whether the discrimination made has caused fair outcomes. The concept of artisan is more broadly regulated in commercial law. It would not be correct to say that the narrowing of the artisan concept in the tax law brings too much burden to the commercial earners in terms of their material and formal assignments. Because, in the tax law, differences are created between the people who are accepted as taxpayers, and they have more tasks for large-volume commercial gains and less material and formal tasks for small-volume commercial gains.

Keywords: Merchant, artisan, simple procedural gains, real person revenues

JEL Code: K34, K22.

1. Introduction

In the provision 2 of the Income Tax Law no. 193, the earnings elements of real persons were determined. Accordingly, the elements of real person income; commercial gains, fringe benefits, fees, self-employment profits, real estate capital gains, movable capital gains and other gains and revenues. The distinction between the merchant and the artisan is considered as a distinction made within the component of the commercial gain.

The distinction between merchant and artisan attracts attention as the distinction that many important judgments attach to the results of tax and commercial law. In general, it is observed that, while more responsibility is imposed on merchants, artisan are more likely to be protected.

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In the study, first of all, the tax law will examine the distinction between merchants and artisans, and then the basic principles of the distinction between merchants and artisans will be examined in terms of commercial law. In the conclusion section, trade law and tax law will be compared in terms of merchant-trader discrimination and it will be investigated whether the discrimination made has caused fair outcomes.

2. Merchant-Artisan Differentiation in Terms of Tax Law

According to the relevant provisions of the Income Tax Law No. 193, commercial income holders are subject to taxation; can not be taxable artisans and taxable commercial gains. The taxpayers, according to the taxation procedures, are divided into real and simple procedures. Real procedures are divided into balance sheet basis (1st class merchants) and business account basis (2nd class merchants) (Gümüş, 2013: 76).

2.1. The Concept of Merchant in Tax Law

In tax law, differences are created between taxpayers according to large-volume workers and for small-volume workers, resulting in less material and formal tasks. For example, in terms of bookkeeping obligation, in the tax law, It is seen that First class merchant are given three different bookkeeping assignments, namely journal, bookkeeping and inventory book. Second class traders have only the obligation to keep business accounts. The merchants subject to the simple procedure do not have any bookkeeping obligations. The profits of these persons are determined and taxed through documents such as vouchers, invoices and receipts they are obliged to exchange and by means of declarations they will give. In terms of material duties, differences were made between the traders according to their size, by differentiating the tax rates and by exemptions. In this way, small volume commercial income is aimed at saving the burden of counting merchants.

2.2. The Concept of Artisans in Tax Law

In provision 9 of the Income Tax Law No. 193, income tax exempt trades were regulated. Counts of trades exempted from income tax on the subject matter have been determined in a proper manner. The extract is considered to be an exempted tradesman who is a small, mobile or at home worker without being bound to a work place. It is stated that the exemption of trades is an application of the principle of fair distribution of the tax burden within the context of the social purpose of the taxation of the state from the constitutional aims of the state (Biniş, 2015: 54).

There is no consensus as to whether the commercial traders who are subject to simple procedure will be expressed by the concept of merchant or artisan.In legal regulations, the concept of merchant is used for these individuals, but they are accepted as artisan in doctrin and judicial decisions.

3. Merchant-Artisan Separation in Terms of Commercial Law

The distinction between merchants and artisans in commercial law is important for determining who will be subject to the provisions and consequences of being a merchant by means of this distinction. In commercial law, it is observed that the distinction between merchan and artisan is basically made with quantitative criteria.

3.1. The Concept of Merchant in Commercial Law

In commercial law, merchants are divided into real person merchants, legal person merchants and equipments (Dinç, 2015: 118). The actual person who is mainly interested in the work is the merchants. It is not possible for legal entities to be regarded as an artisan. For this reason they can not deal with merchant-artisan.

3.2. The Concept of Artisan in Commercial Law

It deals with the concept of trades in commercial law; There are basic regulations in the Turkish Commercial Code numbered 6102, Law No. 5362 on Tradesmen and Tradesmen Organizations and Decree No. 2007/12362 of the Council of Ministers. According to these arrangements, Law No. 6102, unlike the others, did not subject trades to being bound to a certain profession group. There is a serious contradiction in commercial law in this regard. The elimination of this dilemma is essential for the determination of the content of the trades concept in terms of commercial law.

4. Conclusion

In trade law and tax law, the distinction between merchant and artisan is connected to important results. As a matter of fact, the fact that a person is a merchant or artisan affects both the commercial and taxation provisions.

In trade and tax law, artisans are not subject to the provisions and consequences of being a merchant. Because, as mentioned above, being a merchant carries personal responsibility. By not carrying these responsibilities, artisans, who are accepted as having a small volume of commercial income are trying to provide justice by not carrying these responsibilities.

A person who is deemed to be an artisan in the commercial law and is wanted to be saved from the consequences, can be taxed as a merchant in tax law. In another expression, the distinction between commercial law and tax law differs from merchant-artisan. The concept of artisan is more broadly regulated in commercial law. It would not be correct to say that the narrowing of the artisan concept in the tax law brings too much burden to the commercial earners in terms of their material and formal assignments. Because, in the tax law, differences are created between the people who are accepted as taxpayers, and they have more tasks for large-volume employees and less material and formal tasks for small-volume employees.

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COMPARISON OF TAX REVENUE FORECASTING MODELS FOR TURKEY

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Abstract

The objective of this study is to compareperformance of threeforecasting tax revenue models for Turkeyover the period of 2006: 01 to 2018: 12. Three different time series forecasting techniques such as Random Walk, SARIMA (Seasonal Autoregressive Integrated Moving Average) and BATS (Exponential Smoothing State Space Model with Box-Cox Transformation, ARMA Errors, Trend and Seasonal Components) are used in the study. At the beginning of the analysis, the data set was apportioned into two parts: training and testing. The training period is from 2006: 01 to 2014: 12 and the testing part is from 2015: 01 to 2018: 12. Based on different evaluation criteria, forecast points of 36 months are obtained for each forecasting model. We find that using the BATS model, rather than classical S(ARIMA) in forecasting series of monthly tax revenues of Turkey, provide more accurate forecasts. The empirical findings of this study help the experts in the preparation process of government's budgets.

Keywords: Forecasting,Tax Revenue, BATS, SARIMA, Turkey

JEL Code: C1, C5, H20

1.Introduction

Tax revenues are considered amongst the fundamental sources of governments budget planning. Governments collect taxes not only to finance their expenses but also aiming of stabilization, distribution and allocation in the economy. They use taxes to stabilize the employment levels, balance of payments and/or prizes. They might try to intervene the income and wealth distribution by playing with the tax structure. Further, they might want to use taxes to allocation of resources in the economy by using their allocative effects on certain goods (Brown & Jackson, 1986: 297).

There are three fundamental classifications in Turkish tax system. These are income taxes, taxes on expenditure and taxes on wealth. The relative importance of these taxes in the Turkish tax system is presented in Table 1. Income taxes are classified as individual

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income and corporate income taxes. Income taxes yield about 30% of total revenues in Turkish tax system.

Table 1. Percentage Distribution of Tax Revenues in Turkey

	2008	2009	2010	2011	2012
Income Taxes	**31,3**	**31,8**	**28,4**	**29,1**	**29,7**
Personal Income Taxes	21,2	20,9	18,4	18,5	19,2
Corporate Income Taxes	10,1	10,9	10	10,6	10,5
Taxes on Expenditure	**66,5**	**65,4**	**69**	**68,6**	**67,9**
Value Added Tax	32,5	31,7	33,2	34,7	33,6
Special Consumption Tax	22,7	23	25,4	23,3	23,4
Banking and Insurance Transaction Taxes	2	2,1	1,6	1,6	1,8
Stamp Duty Tax	2,2	2,2	2,3	2,4	2,4
Special Communication Tax	2,5	2,3	1,8	1,6	1,5
Tax on Wagering	0,2	0,2	0,2	0,2	0,2
Tax on Customs	1,5	1,3	1,4	1,7	1,7
Taxes on Wealth	**2,3**	**2,5**	**2,3**	**2,3**	**2,3**
Inheritance and Gift Taxes	0,1	0,1	0,1	0,1	0,1
Motor Vehicle Tax	2,2	2,4	2,2	2,2	2,2

Source: Saracoglu et. al. (2014)

Taxes on expenditures, on the other hand, contain approximately 68% of total revenues in Turkish tax system. Taxing expenditures is considered as the common and easy way to collect taxes for governments. Hence, that big amount of taxes is comprised of expenditures in Turkey. Finally, taxes on wealth only yield approximately 2% of total revenues.Tax analysis and forecasting of tax revenues for governments are crucial to ensure stability in tax and expenditure policies (Jenkins et. al., 2000).

Budgetary uncertainties directed governments to rely heavily on economic analysis in recent decades. Because of the extent of these fiscal problems forecasting tax revenues is essential for governments to manage their budget planning process. Recent fiscal problems of governments created reliability issues on economic and revenue forecasting. Hence, there are plenty of methods that are used to forecast tax revenues by policymakers (Fullerton, 1989). Transparency and accuracy are the key components while determining the method for forecasting. A potential manipulation of forecasts might create government problems.

Furthermore, inaccurate forecasts might hinder abilities of policymakers to make accurate budget planning and harm levels of productivity in the economy (Kyobe and Danninger, 2005; Cirincione et al., 1999). It is considered that countries with high-income levels and relatively small central government tend to have high formality, accuracy and transparency forecasts (Kyobe and Danninger, 2005).

Government revenue forecasting studies for Turkey are rare in the literature; hence this study aims to fill this gap. The rest of the study is organized as follows. Section II outlines

the major studies that make forecasting analysis in the literature. Furthermore, Section III describes the methodologies of the forecasting techniques applied and the data that are used in the study. Section IV provides the outcomes of selected forecasting methods in the study. Finally, Section V contains the conclusion and discussions.

2. Literature

Majority of forecasting studies focused on the private sector in the literature so far, hence the studies focused on government revenue are relatively less than private sector studies. For instance, Gajewar and Bansal (2016) conducted forecasting analysis for private sector using machine-learning algorithms. Specifically, they performed ARIMA, ETS (Exponential Smoothing), STL (Seasonal and Trend Decomposition using Loess), and Random forest machine-learning algorithms to obtain revenue forecast for Microsoft. They suggested that using machine-learning algorithms methods would increase the accuracy of quarterly revenue forecasting.

Many researchers also focused on state and/or municipal revenue forecasting analysis so far. Fullerton (1989) analyzed sales tax revenues using composite forecasting modelfor Idaho. Using time series model and econometric models he examined the capability of composite forecasting model. He found that the composite forecast model are more effective than base line forecasts. The combined model was also found more accurate than previous forecast attempts for Idaho.

Hamboret. al. (1974) used econometric forecasting method using simple revenue structurefor Hawaii. They forecasted state revenues including; excise, personal income, corporate income, and other state tax revenues, for a single fiscal year of Hawaii. Furthermore, Kyobe and Danninger (2005) analyzed the revenue forecasting practices in 34 low-income countries focusing especially on institutional prospects. They claimed that there are three key factors on forecasting practices such as “formality, organizational simplicity, and transparency”. They empirically found that countries levels of corruption are Assoc.d with formality and transparency of forecasting. Accordingly, they found that high levels of corruption are related with less formal and transparent forecasts.

Cirincione et al. (1999) examined the impact of using time series models, the length and the frequency of the data on non-tax general fund revenue forecasting for the municipalities of Connecticut. They found that exponential smoothing models are most effective on bimonthly data in which they claim local governments should rely on rather than monthly or quarterly data.

As we pointed above, there are plenty of methods that were used to forecast private sector or government/state/municipal revenues in the literature. It is also important to analyze the methods used in these studies. In case of the Box-Jenkins AutoRegressive Integrated Moving Average Model (ARIMA), researchers found different results in effectiveness of ARIMA model. For instance, Makridakis and Hibon(1995) claimed that the ARIMA model performs relatively poor than other models. In doing so, Makridakis

et al. (1979) found the reason of this poor performance of ARIMA model as usage of differencing in order to find stationary in the mean of the series.

Similarly, in a series of studies that focused on local government revenue forecasting for the municipalities of Florida, researchers found similar results. They claimed that Box-Jenkins ARIMA model performs poorly than other methods such as time series models, which produce lower forecast errors. Furthermore, they found that trend fitting by regression generated more forecast errors than its counterpart methods (Frank and Gianakis,1990;Gianakis and Frank, 1993).

It is important to point out that the studies that found poor performance for ARIMA method mainly focused on municipal government revenue forecasting. Differently, Downs and Rock (1983) found evidence that multivariate AutoRegressive Moving Average (ARMA) method is more effective than univariate techniques using ARMA model for municipal government revenue forecasting.

While, most of the forecasting studies examine relative performance of various methods so far, only few researchers tested the impact of data quality on the performance of forecasting methods. Gianakis and Frank (1993), which is one these studies, claimed that the length of the data does not have any impact on the accuracy of forecasting techniques. However, some scholars suggested that at least fifty observations are necessary to implement the Box-Jenkins ARIMA method. On the other hand, scholars have kept using this method with fewer numbers so far (Lorek et al., 1976).

Lorek and McKeown (1978) analyzed the association between observation numbers and the performance of the Box-Jenkins method on quarterly market income data. They found that the forecast error is not significantly different in models based on fifty observations and models based on fewer observations. They suggested that if the number of observations of Box-Jenkins method decreases, forecast error increases. However, the performance of the model does not Assoc.d with the number of observations at least until twenty-four or fewer observations. Similarly, Lusk and Neves (1984) found a result consistent with the previous cases. They suggested that the performance of the Box-Jenkins model does not Assoc.d with the length of data or the frequency in their private sector study.

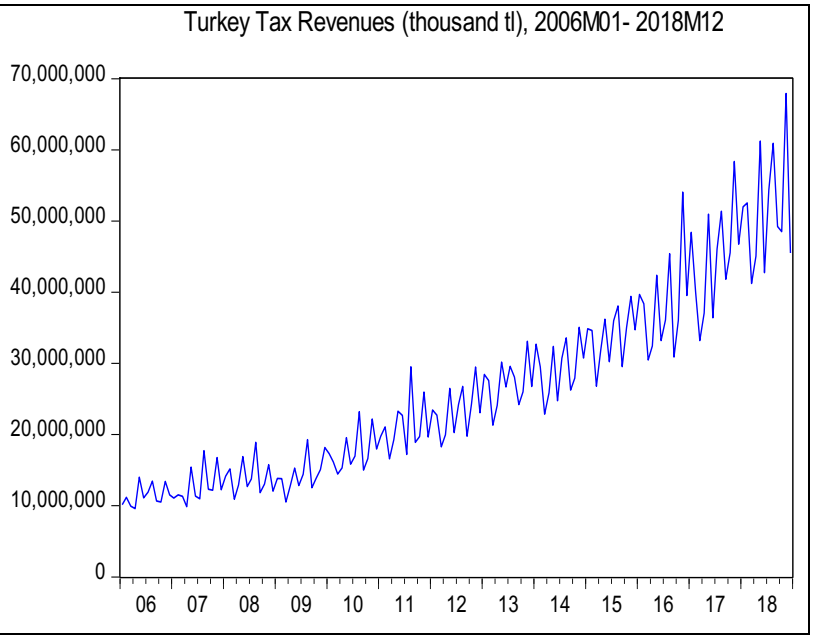
3. Data and Methodology

3.1. Data

In the analysis, the series of monthly tax revenues in the central government budget realisations, from January 2006 to December 2018 is used. The data is obtained from the web site of General Directorate of Budget and Fiscal Control (BÜMKO). The series is plotted and shown in Figure 1, provides also some descriptive statistics about the data to help better understanding the structure of the series. From the plot, it is clear that the series has trend and seasonal component.

Figure 1.TurkeyTaxRevenues, 2006M01 – 2018M12

	TaxRevenues
Mean	26127815
Median	23373839
Maximum	67930091
Minimum	9591739
Std. Dev.	13173330
Skewness	0.838831
Kurtosis	3.031952
ADF	5.52*
Jarque-Bera	18.30122
Probability	0.000106
Observations	156



Source: General Directorate of Budget and Fiscal Control and General Directorate of Budget and Fiscal Control. * the t — statistic value of the Augmented Dickey-Fuller test, indicating nonstationarity of the series at level 0.05.

3.2. Methodology

In this section, we provide the fundamentals of the forecasting methods used in the study such as: Random Walk, SARIMA and BATS.

3.2.1. Random Walk-RW

Random walk model is widely used in econometric forecasting studies as a benchmark.

A time series is said to follow a random walk process if the first differences are random.

For a time series Y_t, a *random walk* can be written as differences changes from one period to the next,

$$Y_t = Y_{t-1} + \varepsilon_t,$$

where Y_{t-1} is the value at time $t-1$ and ε_t is a discrete white noise at time t.

3.2.2. SARIMA

Introduced by Box and Jenkins (1970) ARIMA (Auto-Regressive Integrated Moving Average) models are a broad category of univariate models. In forecasting a time series, these models bring together three components: the auto-regressive (AR), the moving average (MA) part and the integrated (I) part. The AR part indicates that individual values in a variable of interest can be described by linear models based on its own lagged

values. The MA part assumes that regression error is a linear combination error terms. The integrated part (I) shows the degree of differencing.

The ARMA (AutoRegressive, MovingAverage) model is defined as follows:

$$Y_t = \varphi_1 Y_{t-1} + \varphi_2 Y_{t-2} + \ldots + \varphi_p Y_{t-p} + \alpha_t - \psi_1 \alpha_{t-1} - \psi_2 \alpha_{t-2} - \ldots - \psi_q \alpha_{t-q} \quad (1)$$

where the $Y_t's$ are the original time series, the $\varphi's$ are the unknown autoregressive parameters, the $\psi's$ are the unknown moving average parameters and the $\alpha's$ are the white noise error terms.

A modification for nonstationary series, known as ARIMA (p,d,q) is;

$$\varphi_p(B)(1-B)^d Y_t = \psi_q(B)\alpha_t \quad (2)$$

where B is the backshift operator, thus $BY_t = Y_{t-1}$ and $B^2 Y_t = Y_{t-2}$ and the d parameter indicates the order of differencing.

For seasonal series, a more general form of above equation, and known as the multiplicative seasonal ARIMA –SARIMA $(p,d,q)(P,D,Q)_s$ process is given by;

$$\phi_p(B)\Phi_P(B)(1-B)^d(1-B^s)^D Y_t = \psi_q(B)\Theta_Q(B^s)\alpha_t \quad (3)$$

where $(1-B^s)Y_t = Y_t - Y_{t-s}$ and s is the number of seasons per year, $(1-B^s)$, d and D are the orders of differencing. Also φ_p, Φ_P, ψ_q and Θ_Q are the polynomial functions of orders p,P,q and Q, respectively.

3.2.3. BATS

To model series having only one seasonal pattern, Winters (1960) introduces the standard Holt-Winters method. However, Taylor(2003) extends the standard method to a double seasonal Holt-Winters method, following mainly De Livera et. al (2012);

$$Y_t = L_{t-1} + B_{t-1} + S_t^{(1)} + S_t^{(2)} + D_t, \quad (1A)$$

$$L_t = L_{t-1} + B_{t-1} + \alpha D_t, \quad (1B)$$

$$B_t = B_{t-1} + \beta D_t, \quad (1C)$$

$$S_t^{(1)} = S_{t-k_1}^{(1)} + \lambda_1 D_t, \quad (1D)$$

$$S_t^{(2)} = S_{t-k_2}^{(1)} + \lambda_2 D_t, \quad (1E)$$

where L_t represents the level component of the series Y_t at time t,

B_t represents the trend component of the series Y_t at time t,

$S_t^{(i)}$ represents the ith seasonal companent at time t,

k_1 and k_2 are the periods of the seasonal cycles,

D_t is the disturbance (or prediction error),

α, β, λ_1 and λ_2 are the smoothing parameters,

Proposed by De Livera et. al (2012), the BATS models (Exponential Smoothing State Space Model with Box-Cox Transformation, ARMA Erorrs, Trend and Seasonal Components) are designed in the exponential smoothing framework. The models are constructed to handle more than one seasonality as well as complex seasonalities for example, non-nested, non-integer and large period seasonality. De Livera et. al (2012) extends the double seasonal Holt-Winters method by adding a Box–Cox transformation, ARMA errors, and T seasonal patterns:

$$Y_t^{(w)} = \begin{cases} \dfrac{Y_t^w - 1}{w}, w \neq 0, \\ \log Y_t, w = 0, \end{cases} \quad (2A)$$

$$Y_t^{(w)} = L_{t-1} + \varphi B_{t-1} + \sum_{i=1}^{T} S_{t-k_i}^{(i)} + D_t, \quad (2B)$$

$$L_t = L_{t-1} + \varphi B_{t-1} + \alpha D_t, \quad (2C)$$

$$B_t = (1-\varphi)B + \varphi B_{t-1} + \beta D_t, \quad (2D)$$

$$S_t^{(i)} = S_{t-k_i}^{(i)} + \lambda_i D_t, \quad (2E)$$

$$D_t = \sum_{i=1}^{p} \psi_i D_{t-1} + \sum_{i=1}^{q} \zeta_i \eta_{t-i} + \eta_t, \quad (2F)$$

where; L_t represents the local level in period t,

B_t represents the short-run trend in period t,

B represents the long-run trend in period t,

φ represents the damping parameter,

$S_t^{(i)}$ represents the ith seasonal companent at time t,

$k_1, k_2, \ldots, k_T$ are the seasonal periods,

D_t is an ARMA(p, q) process,

η_t is a Gaussian process with zero mean and constant variance σ^2,

α, β, λ_1 and λ_2 are the smoothing parameters,

4. Analysis and Emprical Results

At the beginning of the analysis, we split the data into a training and testing set. The training set covers the period from 2006:01 to 2014:12 and the testing part covers the period from 2015:01 to 2018:12. The training data set is used to only to estimate unknown model parameters. Once the model coefficients are estimated, forecasts for each model are made for the testing part. To evaluate forecast accuracy of each model, the testing data is used.

The resuts of the best ARIMA(0,1,2)(0,1,1)^{12} model for the tax revenues series is given in the following Table 2. Automatic ARIMA selection option was used in the forecast package in R, the details can be found in Hyndman and Khandahar (2008).

Table 2. The results of the ARIMA (0,1,2)(0,1,1)^{12} model

	Lagged length	**Coefficints**	**Standard Error**
MA	1	-1.0682	0.0963
MA	2	0.3932	0.0969
SMA		-0.4693	0.0908

The results of the BATS(0.377, {0,0}, 1, {12}) model for the series is provided in Table 3. The forecast package in R is used to get the results.

Table 3. The results of the BATS (0.377, {0,0}, 1, {12}) Model

Parameters	**Coefficients**
Lambda	0.376905
Alpha	0.2432854
Beta	0.01566971
Damping	1
Gamma Values	-0.1082185

After fitting three time series models: random walk, SARIMA and BATS, forecasts for the testing period, 2015: 01 to 2018: 12, are obtained in Table 4.

Finally, accuracy of each model is measured on the testing set. Table 5, provides statistical measures of accuracy of each method based on various forecast evaluation criteria: ME, RMSE, MAE, MPE, MAPE, MASE and Theil's U.

Table 4. Point Forecasts of the Methods for the Testing Data (2016M01-2018M12)

Forecast Horizon	ACTUAL	Forecasting Methods		
		Random Walk	SARIMA	BATS
Jan 2016	39685212	34729587	39551109	38989627
Feb 2016	38361380	34729587	38414335	37396828
Mar 2016	30496694	34729587	31463837	30878845
Apr 2016	32446011	34729587	35440194	34802877
May 2016	42368600	34729587	40607697	41212156
Jun 2016	33195345	34729587	34699758	35611013
Jul 2016	36111701	34729587	39678120	38694089
Aug 2016	45425215	34729587	41889999	43894982
Sep 2016	30883849	34729587	34262776	34663442
Oct 2016	36060795	34729587	38123593	38056660
Nov 2016	54060129	34729587	43576351	44574433
Dec 2016	39906810	34729587	38712079	38555889
Jan 2017	48420673	34729587	43405126	43683557
Feb 2017	39994384	34729587	42309290	41972917
Mar 2017	33201256	34729587	35358791	34951174
Apr 2017	37082457	34729587	39335148	39182860
May 2017	50949456	34729587	44502651	46067487
Jun 2017	36422643	34729587	38594712	40052674
Jul 2017	46062984	34729587	43573075	43366295
Aug 2017	51377479	34729587	45784953	48940777
Sep 2017	41837993	34729587	38157730	39032728
Oct 2017	45559415	34729587	42018548	42681794
Nov 2017	58372034	34729587	47471306	49667752
Dec 2017	46766884	34729587	42607034	43217915
Jan 2018	51995609	34729587	47300081	48714507
Feb 2018	52558220	34729587	46204244	46882727

Mar 2018	41249512	34729587	39253745	39342516
Apr 2018	45049034	34729587	43230102	43890960
May 2018	61218542	34729587	48397605	51264277
Jun 2018	42749559	34729587	42489666	44824230
Jul 2018	54360053	34729587	47468029	48374916
Aug 2018	60934207	34729587	49679907	54333154
Sep 2018	49235735	34729587	42052684	43729821
Oct 2018	48504135	34729587	45913502	47642028
Nov 2018	67930091	34729587	51366260	55108914
Dec 2018	45525901	34729587	46501988	48216072

Table 5. Measures Accuracy of the Methods for Testing Set (2016M01-2018M12)

Methods	**ME**	**RMSE**	**MAE**	**MPE**	**MAPE**	**MASE**	**Theil's U**
Random Walk	10159746.6	13580773	10905568	19.50	21.87	3.93	1.27
SARIMA	2961666.3	5761357	4317229	4.84	8.73	1.56	0.55
BATS	**2042864.3**	**4578144**	**3583768**	**3.13**	**7.43**	**1.29**	**0.44**

The measures calculated are: *ME:* Mean Error, *RMSE:* Root Mean Squared Error, *MAE:* Mean Absolute Error, *MPE:* Mean Percentage Error, *MAPE:* Mean Absolute Percentage Error, *MASE:* Mean Absolute Scaled Error, *Theil's U:* Theil Inequality Coefficient.

Among the three generated models, the accuracies of the models are tested based on seven forecast evaluation criteria. From the Table 5 results, BATS is preferred asthe best forecasting model for the tax revenues series of Turkey, since it provides lesser values of seven evaluation criteria: ME, RMSE, MAE, MPE, MAPE, MASE and Theil's U.

5. Conclusion

The aim of this study is to evaluate performance of three forecasting tax revenue models for Turkey over the period of 2006: 01 to 2018: 12. Three different time series forecasting techniques such as Random Walk, SARIMA (Seasonal Autoregressive Integrated Moving Average) and BATS (Exponential Smoothing State Space Model with Box-Cox Transformation, ARMA Erorrs, Trend and Seasonal Components) are used in the study. At the beginning of the analysis, the data set was apportioned into two parts:training and testing. The training period is from 2006: 01 to 2014: 12 and the testing part is from 2015:01 to 2018:12. Based on different evaluation criteria, forecast points of 36 months are obtained for each forecasting model.

BATS model outperforms the benchmark RW and SARIMA models based on all evaluation criteria. We find that using the BATS model, rather than seasonal ARIMAYılmaz (2019) in forecating series of monthly tax revenues of Turkey, provide more accurate forecasts. The empirical findings of this study help the experts in the preparation process of government's budgets. For further forecasting of other tax types such as Corporate Income Tax, Value Added Tax and Total Tax, the BATS model may provide better performance. Also the empirical results of the current study will be used to develop combined forecasting models.

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FINANCING RELIGIOUS SERVICES IN THEORY AND PRACTICE

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Abstract

Financing religious services in Turkey generates a lot of social, economic and political problems, such as unfair treatment of non Muslims and non Sunni sects of Islam, misrepresentation in political decision making process, over allocation of budget funds to only one dominating sect. In addition to these, serious fiscal exploitation problems of unrecognized sects and denominations occur. Although, Turkey is a secular country according to her constitution, however state and the religion is not separated in practice, due to central government budgetary support of religious services. In addition to that, religious services are provided only to the Sunni majority, excluding Christians, Jews and Alevis which is biggest minority sect in Turkey. Although these non Sunni groups and Alevis pay compulsory taxes to finance the religious services, but they are not provided any services. For this reason, I employ a research methods of public economy that can be used to determine the nature of religious services. Then I refer to equity and efficiency principles of public economy as developed by Richard Musgrave. Since religious services are individually satisfied a different technique of funding must be applied.But, religious services are considered as a socialized merit good by the governmentand thus it is publicly provided in Turkey and in Sunni dominated countries. Although, the European Human Rights Court considered this practice is ahuman right violation, however a fair funding method have not been accepted yet. To prove that religious services are private good rather than being pure public or merit good, I examine the different funding systems in European and Anglo-Saxon countries. All practices in Western World shows that, although countries are employing different financing techniques, however they considered religious services as private good. Because to improve the secularism they separate the religion and state holding a neutral position among various sects and religions. For this reason state is not supposed to intervene in religion and doesn't allow religion involve in state affairs. I think that this kind of understanding of secularism is the precondition of sustainable democracy.For this reason, this paper aims at introducing a proper methodof financing religious services, complying with the efficiency and equity principles of the main goals of the public economy. Thus, I examine the effects of religion finance as practiced in Turkey on efficiency and equity groundsof public economy and introduce two methods applied in European Union. I conclude that,the best financing religious services must based on the voluntary charitable contributions, like in European countries and as practiced by the Alevis in Turkey, in order to cope with all the existing financing and political and legal problems in Turkey.

Keywords : publicly provided private goods, Presidency of Religious Affairs, Muslim denominations, Fiscal Exploitations, Church taxes, voluntary contributions

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1. Introduction

In order to finance religious services in Turkey, more than the size of the budgets of 12 ministries and governmental agencies are allocated to the Presidency of ReligiousAffairs (PRA). Over allocation of scarce public funds appropriated to this administrations distorts the efficiency in resource allocation goal of public economy (Gianaris, 2010: 117). Since faith ispersonal belief rather than being public want and thus it is not a kind of public good, it should be provided by private sector calling for privatization in the form of denationalizationof religious services. However, due to exploitation of the society by religion finance, it is considered as public need and for this reason it is provided by the state in Muslim countries opposing to Christian practice. The aim of this paper is to explain why this financing system distorts the efficiency in resource allocation and fairness in income distribution goals of the public economy. For this reason, I use the methods mostly employed by public economics and public choice theories based on externalities. Economic analysis of religious finance also calls for employing basic principles of the public financing such as earmarked taxes instead of ability to pay taxation. In lines with earmarking taxation to be employed in financing religious services, this paper includes following subtitles: Models of State Financing of Religious Services and their relevance to democracy; Financing techniques used in Europe (France and Germany); and Turkish Religious system.

2. Models of State financing of Religious Services

There are 5 models applied in different countries to fund religion services, namely Theocratic, Absolute Secular, Separation of state and religion, Established Church and Recognized Religious Models. The first two model are considered non democratic because and violate human rights. The others are considered democratic, however two of them opposes to the principle of separation of state and religion.

2.1. Non Democratic Models

2.1.1. Theocratic Model

According to this model there is only one officially recognized religion and the other religions are forbidden. Under theocratic model, the ruler of a country is a representative of the dominating religion and the state's constitution is based on religious law as in Sharia Law in Saudi Arabia and former İslamic Republic of Iran during the Chumenistic (Humeyni) administration. This kind of theocratic religious funding of the religious services are considered nondemocratic, because it causes deprivation of freedom of religion.Christians, Jews, an Zoroastrians are the most significant religious minorities where the dominating Shia majority comprise 93 percent of the population in Iran. Although Christians, Jews and Zoroastrians are recognized in former Constitution as official minorities, howeverthe revolutionary movement don't treat them equally. For this reason, most of the Jews emigrated in great numbers after revolution.

2.1.2. Absolute Secular Model

In this model all religions are forbidden and only atheism is supported by the state, as it was in former communist regimes. Since, the constitution forbids religion, freedom of religion is completely deprived.

2.2. Modern financing Models of Religion Funding

A modern theory of state rejects both Theocratic and Absolute Secular Models. A democratic state must preserve freedom of religion, maintain religious activities and faith of believers or to worship. On the other hand state must ensure the freedom from religious or not to fulfil any religious commandments calling for secular state. There are 3 models of religious finance have been developed in modern Western states. These are Separation of State and Religious Model, Established Church, and Recognized Religious Models as discussed below.

2.2.1. Separation of State and Religion Model

In this model there is a distinction between state and the religion. The nature of religion is that, it is secular, non religious and state has no preference for any religion. This means that state doesn't interfere in religious organisations and not to let the religion interfere in the matters of the state. This doesn't necessarily mean that state's approach is against religion. However, separation result in favourable attitude towards religion in the USA, or less favourable attitude in in the case of France, India and today's Russia. Whereas, it is expressed as neutral in Austria, Ireland and Spain.

2.2.2. Established Church Model

According to this model, state gives priority only to one religion (or church) and supports it. The difference between this model and the Theocratic Model is that, Established Church Model recognizes other religions and non believers. But, Theocratic Model recognizes only one sect ignoring other religions and denominations. Although, Established Church Model recognizes all religions, sects and non believers, but it prefers to fund only a dominating one as an established church. Examples include the Anglican Church is the Church of England in UK, The Anglo-Lutheran Churches in Finland, The Eastern Orthodox Church of Christ in Greece and in Bulgaria.

2.2.3 Recognized Religious Model

In this model state does not recognize only one religion or sect as a state church. But, state holds a neutral position to all recognized religions. Accordingly, all religions and churches are treated equally in funding religious services, maintenance of worships and and financing. All religions are recognized as special corporations according to this model. State does not interfere in the internal matters of religions. For instance, state doesn't involve in appointment of the priests. Examples includes Germany and and

Hungary where all the religions such as Catholics, Protestants, The Anglican, The Jewish and Muslim sects are treated equally in funding.

3. Financing Religious Services in European Secular States

Almost in all Muslim countries religious services are financed by means of general budget revenues based on ability to pay taxation. Whereas, in Christian countries, due to separation of religion and state, churches are financed by their registered members, based on earmarked taxes. On the other hand, religious services are financed on voluntary basis in Christian countries, whereas it is compulsory in Muslim countries which reduces the quality of the democracy. There are two main financing techniques employed in European Union countries; the one is used in France and the other one in Germany (Şener, 2017: 69-73).

3.1. French Financing system of Churches

This system, successfully separates the state and the church from each other, in line with the basic principles of secularism. Thus, churches are mainly financed by their registered members and they raise money through by their business activities such as selling their booklets, post cards, CDs, slides and gifts, classical music concerts and charities. Nevertheless, only few monumental cathedrals and historical churchesare financed by the state or municipalities. For instance, SacreCaure, Notre Dame and Saint Chappelle in Parisare considered national monuments and therefore are financed and restored by governmental agencies.

3.1.1. Catholic Churches

All the churches around France, excluding cathedrals and national churches, employ a different financing techniques based on self-financing, charitable contributions and commercial activities (Aronson, 1985: 385-87). They are administered by their local church associations. They also operate priest schools. They receive incomes from Vatican andregional churches, donations and charities from their members. These revenues are spent on salaries of the priests and general expenditures. Their business income and earnings from schools are tax exempted.

3.1.2. Mosque Finance in France

There are around 7 million Muslim people, most of them are from Northern Africa, are living in France. Due to high rate of birth and immigration, numbers of the Muslims are increasing year by year. Opposing to financial principles of secularism mosques are supported by government. French government funds mosques, not to allow Saudi Arabia get involved in its finance. But, state financing Muslim mosques is heavily opposed by French tax payers, thinking of this practice violates the secularism.

3.2. The German Model of Religious Finance

A different financial system known as German Model, is also being applied in all the Scandinavian countries as well. In this system, government does not provide religious services, but involves in collecting church tax which is about 1% of the income tax due. The system is based on the principles of benefits taxation of public economy. The church tax, as a kind of an earmarking is paid by the registered members of the various sects and denominations. Government collects the church tax and distributes itproportionately among the three sects respectively. Church tax is compulsory on members of the churches, but not applied on the taxpayers who withdraw from the membership. Thus, it helps to ensure freedom of religion among the citizens and solves the fiscal exploitation problem.

4. Financing Religious Services in Turkey

The religious services are financed too many governmental agencies, state ministries, and the people as well. As being a state agency The Presidency of Religious Affairs (PRA) was established to finance all type of religious institutions and mosques. Ministry of education finances all the priest (Muslim imams) schools. Besides these, people finances religious services conducted by mosques on voluntary contributions charities.

4.1. Presidency of Religious Affairs

Although, Turkey is a secular country according to its constitutional law, however religious services are completely funded from the state budget. On the other hand, budgets appropriations made to Presidency of Religious Affairs (PRA) exceeds the total of the more than 12 ministries and public agencies (x). Over allocation of the public revenues to Religious Affairs, violates the freedom of religion, causing fiscal exploitation problem, and result in undersupply of other public services.As in many Islamic countries, Turkey has non-Muslim Christians and non-Sunni Muslim minority groups such as Turkish Alevis-Bektashis (Turkish Turkmens), Shias (Iranian), Syrian Alleviates (Nasuriyans) and Caferis (Azeris) who face serious financial problems in providing their religious services. Among these non Sunni groups only Caferis accept mosques as their worship place.

Presidency of Religious Affairs only finances Sunni Muslims excluding and disregarding all other sects and denominations. This is because of the fact that, the state doesn't recognize non-Sunni denominations as official ones, except Sunnis. Thus, A governmental agency in charge of religious services financing only Sunni majority sect gives rise to economic, social, political and human right violation problems. On the other hand, each year appropriations made to this administration is increasing dramatically exceeding 10 billon Turkish liras in 2018 budget. This financial model applied in a secular state like in Turkey,resulted in support of only Sunni Muslim sect, excluding other Muslim and non-Muslim sects, violating the democratic principles of secularism. Although the Alevis, Shias and Christian minorities are paying compulsory taxes to finance the religious affairs involuntarily, however they are not benefiting from the

services provided by the PRA. This unfair treatment of citizens is called "fiscal exploitation" of the minorities in the theory of public choice. For this reason, the aim of this paper is to develop a proper financing model compatible with the principles of public economy and complying with the standards of European Union (EU). For this reason, I highly support one of the both systems. Because, French system alike the Alevis' financing system is compatible with secularism. On the other hand, the German modelthat reflects efficiency considerations based on earmarked or benefit taxation (Herber, 1971: 73-76).

4.2. Budget of CEM Foundation

Since they are not recognized by the ruling governments as a separate sect, Alevis established an educational foundation to carry out their religious expenditures and services. Thus, a foundation of Center for Republican Education and Culture Foundation (Cumhuriyetçi Eğitim ve Kültürel Merkezi Vakfı, or CEM) was established in order to train their priests, called Dede or imam who are incharge of conducting their religious ceremonies and worships, without any governmental fund and funds.

It is estimated that 20 percent of the Muslims living in Turkey areAlevis, who are liberal Muslims, corresponding to Christian Protestants. They practice their religious worships at Cemevis (meeting house) rather than at mosques. Like in France, Alevies finance their religious services through their voluntary contributions, charities and donations without state support.

The following table based on the report prepared by certified audit and submitted to general assemble, releases the revenues and expenditures of the CEM Foundation as of 2019 (Annual Report, March, 2019).

Revenues	**2.390.656 tl**
Donations and voluntary contributions	2.284.747
Rental incomes	48.000
Others	57.908
Expenditures	**2.420.266 tl**
Cultural	9.566
Educational	91.518
Social expenses	33.071
Others	1.755.159
General expenses	226.954

Compared to PRA's budget which amounts to more than 10.5 billion Turkish Liras, the budget of CEM foundation is more than 43.700 times smaller than that of government funded PRA budget.

This sort of religious finance based on voluntary contributions does not lead inefficiency problem of resource allocation because need for religious faith is personal rather than collective need. Since, Alevis sect is not legally recognized by the governments, thus they are not given any budgetary appropriations. In addition to that, they implicitly finance the budget of Presidency of Religious Affairs through the income tax and consumption taxes that they have to pay, but they don't get any service from this administration. In addition to that, they are supposed to pay for the service that they don't want, causing a kind of fiscal exploitation. This problem can only be solved by not financing the religious services through government budget as in secular European countries.

4.3. Church and Synagogues Finance

The French typeof financing model is being employed by the Christian and Jewish minorities in Turkey. As in the case of Cemevis, appropriations are not made from the central government budget to finance Churches and Synagogues, in spite of the fact that their members are paying compulsory taxes. For this reason , they are also subject to fiscal exploitation problem as Alevis as well. They are financed on self financing method, through charities raised by the church attendants and the contributions made by the businessmen.

5. Problems of State Finance of Religion in Turkey

5.1. Over allocation problem to the budget of Directorate of Religious Affairs

Ministries in Turkey on average received a budget increase of the 16 % for the year 2019, while the budget of Presidency of Religious Affairs(İlahiyat Başkanlığı) is doubled. As the poverty rate gradually increase across the country, state allocates a huge share to the Presidency of Religious Affairs (PRA). Government increased the allocations to PRA at 34.4 % in 2019. With this increase the share allocated to PRA from the state budget will be 10,5 billion Turkish Liras. 81% of this budget is allocated to the staffing expenditures.

5.2. Social and Economic Problems

State finance of religious services poses serious economic, social and political problems in Turkey.

Firstly, opposing to Western practice, all taxpayers implicitly pay religion taxes (in terms of hidden tax) on a compulsory basis. Thus, atheists, Christians, Alevies and many secular Sunni taxpayers pay income and consumption taxesinvoluntarily. Since, a certain part of

it used to finance religious services, but they do not benefit from these servicesthat generates fiscal exploitation problems. In fact, the Presidency of Religious Affairs provides religious services only to Muslims belonging to the Sunni sect. This means that more than a half of the population pays implicitly religious taxes on a compulsory basis, but does not demand any religious services. Thus, this practice violates efficiency in resource allocation, leading to fiscal exploitation problem of the minorities.

Secondly, conservative governments support religious institutions in exchange of vote trading during the elections. This violates the equal competition conditions between the political parties in elections, that causes exploitation of religion, and reduces the quality of the democracy.

Thirdly, freedom of religion is violated because ruling religion-oriented parties do not consider the largest minority of Alevis as being a Muslim sect. Thus, the places of their worship, known as Cemevis, is not legally recognized. For this reason, they finance their religious affairs through their own resources on a voluntary contribution basis.

6. Taxation of Religious Services in Western Countries

Since donation based organizations are not subject to tax, so does the churches are usually exempted from the tax. However, they pay tax on their income earned from their business income. In order to be exempted from taxes worships must have following qualification.

A distinct legal existence

A recognized creed and form of worship

A distinct religious history

Not only the Christian churches but also temples, mosques, synagogues, and conventions are tax exempted. Churches never pay taxes on their faith related incomes. However, they pay tax on their business incomes such as thrifts shops income earned from volunteer works.Since churches are considered public charities, they are exempted from paying federal, state and local taxes on their religious activities in the USA.

Church members in Germany are required by tax law to pay church tax to fund church expenses. Church taxes are collected by the government and returned to the respected sects proportionately in line with their number of the church members. Under German Law, anyone who was baptized as a child is automatically becomes a member of church and thus obliged to pay church tax as a taxpayer, regardless of their beliefs or whether they attend to church services. But the only way to be exempted from paying church taxes is to make a formal renouncing their withdrawal from the membership of the the church. It is estimated that about400 000 German taxpayers officially filled declarations to leave the protestant and catholic churches after the increase in church tax.

In Muslim countries, religious services are financed through ability to pay taxes rather than earmarked taxes. This is because of the fact that, religious services are considered as socialized or merit goods opposing to Christian understanding and practice.

In France, religious services are not considered public goods in this country, and for this reason it is not funded by the state.

In Germany, government also doesn't finance religious services from it's state budget, but collects the church taxes, and returns the tax revenues to Catholics, Protestants and orthodox sects in proportion to their church members. This means that religious services are not accepted as a public good in Germany, even though church taxes are collected by the state.

7. Democracy and the Religion Finance

There are many differences of religious financing systems in theory and practice. It is clear that theoretical funding of religious services through state budget is not considered as democratic. Because, it doesn't allow freedom of religion, calling for everybody has no choice to believe any other religion rather than the one the state imposed. Absolute secular system also is not considered democratic, because there is no freedom of religion since religion is forbidden.

German and French Systems of financing religious services are the most democratic models, since state is neutral with respect to all religions and sects. State doesn't interfere in religion and doesn't allow religion to interfere with governmental activities. Thus, state can treat all recognized religions, sects and denominations equally. Equal treatment of different religions enable the freedom of religion which is compatible with the principles of secularism.

The Anglo-Saxon system, one applied in England and the other in the USA, seems to be more complicated. Established Church System in UK is democratic since it recognizes all the religions. It is also undemocratic because it funds only established the Anglican Church, but not the other religions and atheists. On the other hand state and religion is not perfectly separated as in the following instances;

- King or the Queen is the head of Anglican Church
- In order to rule the country, they must be Anglican
- Church organizes formal state ceremonies
- Also coronation ceremony of the monarch
- Conducts requiem ceremonies
- King sits in House of Lords as "Lords Spirituals"

Funding religious services in the USA also seems to be democratic, since it treats all the religions, sects and dominations equally, because they all are recognized. However, it is not democratic because anti religious groups are considered marginal, making the USA

more religious state as compared to European countries. On the other hand, following practices in the USA are found contrary to secularism;

- Formal national holidays are based on religion
- On Good Friday flags are lowered in memory of Christ's Crucifixion
- "The God We Trust" is written on Dollars
- Judges, congress members prey saying "So help me God"
- Priests and Rabies serve in the army
- Church are exempted from taxation

Turkish financing system of religion is not considered democratic; firstly, only Sunni sect of Islam is recognized one, thus it doesn't recognize other Muslim minority sects and denominations. Secondly, although state and religion are separated according to Constitution, however Presidency of Religious Affairs serves as a governmental agency. Thirdly, government supports financially only Sunni Muslims but not greatest minority group of Alevis and Christian denominations even though they pay compulsory taxes to finance the PRA. However, some of the Christian minority denominations are recognized in accordance of Lausanne Agreement, but they don't benefit from the state funds allocated to PRA.

8. Alternative Financing Model

The biggest Muslim minority sect, Alevis employ an alternative religious financing model, alike the French system. They form the 20 per cent of Turkish population, which is the greatest Muslim minority in Turkey. However, they are not recognized by the leading Sunni majority, for this reason their existence is officially denied. Thus, their worship called Cemevi (meeting house) is not also recognized. They obliged to accept Sunni worship or mosques to get government funding. Opposing to conservative Sunni tradition, they form secular structure of Turkish Republic. Although they are Assoc.d with the Syrian Nusayries and Iranian Shias by the public , but there is no similarities among them, because Turkish Alevis are liberal Muslims.

Alevis argue that they pay compulsory taxes to state, but they don't get any religious services from the Presidency of Religious Affairs,resulting in very serious constitutional problem. In addition to that, Alevis' children are given compulsory religious courses at middle and high schools, even though they don't want to take. The European Human Rights Court decided that, this practice is unconstitutional. However, discriminatory practices are not changed. Beside this, from the budget of Ministry of Education important appropriations are made to priest teaching schools and nothing allocated to the teaching courses of Alevi clerks (dedes).

Although the secular governments don't recognize Alevism as an independent and legitimate sect, however their number of the Cemevis increased from 300 to 900 after 2013. Despite many censure from European Court of Human Rights, Governments in Turkey refused to accept Cemevis as official worship. Government claim that Cemevi is

not a place of worship, but it is center for cultural activities and mosques are the only worship that all Muslims are supposed to go. Alevis don't accept this claim saying that it is against freedom of religion.

9. Conclusion

This paper concludes that appropriate financing of religious services calls for funding must based on voluntary payments rather than compulsory taxation.Because, earmarking or benefit taxes reflecting private wants are the best instruments faith related religious services. Our theoretical findings calls for religious services must be provided in line with the benefit or earmarked taxes rather than ability to pay taxes. Because, the faith is personal need rather than public wants. Both German and French financing models are designed in line with the benefit taxation which is compatible with theoretical grounds. As to taxation of business incomes generated by religious activities are concerned, faith based income earned are tax exempted. For this reason, voluntary contributions in all European countries and the USA are not taxed. However, all kind of business income of the churches are taxed. Although religious schools are supported as like the public schools by the governments in Anglo-Saxon countries, however priests are trained by the churches in European countries. Opposing to worldwide practice, religious schools are financed by the Ministry of Education in Turkey. In addition to these, denominations and many different religious orders are funded in exchange for political support with their votes. Thus,financing religious services in Turkey doesn't comply with the equity and efficiency conditions of public economy. Because, compulsory taxes used to finance religious services result in fiscal exploitation of minorities, political misrepresentation, and decrease in laicism. All these problem can be solved by accepting the financing system applied by Alevis which is alike to French system. By doing so, misallocation problem of existing system can be easily solved and government will enable to produce welfare increasing public expenditures.On the other hand, religion of finance based on the voluntary contribution of the citizens will improve the quality of democracy and it will solve the problems stemming from political decision making process in Turkey.

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ECONOMIC GROWTH: A SHORT HISTORY OF A CONTROVERSIAL IDEA

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Abstract

This paper explores the origins and evolution of the 'growth paradigm'--the idea that economic growth is natural, imperative, continuous, a fundamental social good, and the solution to manifold social ills. In pre-modern civilisations, it finds, the growth paradigm is absent. The paper proposes that, in close connection with the rise of capitalism and Europe's colonial land grab, a set of socio-economic, cultural and ideological changes conducive to the growth paradigm arose during the middle of the last millennium. The paper notes that a key moment in the advent of the growth paradigm was the seventeenth-century, with its mercantilist economists and its colonial missions. In the penultimate section of the paper, the ideology of growth in the nineteenth and twentieth centuries are traced. The concluding section unpacks the construction of the growth paradigm and explores its relationship to capitalism.

Keywords: Economic growth, GDP, growth paradigm, William Petty, capitalism.

JEL Code: B00, O.

1. Introduction

The politics of economic growth are complex and contested as never before. In rich countries, rates of GDP growth have declined, decade after decade since the 1960s. The 2008 crash was deep, and the post-crisis recovery has been slow. This poses problems for governments, given that their 'performance legitimacy' requires some degree of popular approval of their perceived success in charting a growth path that satisfies the citizenry's demand for goods and services. Where growth is low and governments choose to respond with austerity programmes, these bring additional misery and hardship — including tens of thousands of premature deaths in Britain alone.

In the same decades, growth scepticism has thrived. It takes two main forms: one highlights the impact of infinite growth on finite resources and on the natural environment. Recognition of the dangers of climate breakdown has transformed this debate – while mainstream opinion retains the traditional faith in growth, now refashioned as 'green growth', the heretics are rallying to 'degrowth'.

The other emphasises the disconnect between growth and social well-being. The days are long gone when growth was seen as the fast track to general prosperity, as normal and natural as sunrise. It is well established that the relationship between growth and

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well-being is partial at best. Such a correlation does exist, but weakens after a certain point — roughly speaking when per capita GDP exceeds $15,000. At higher levels, the translation of growth into improvements in health and well-being is tenuous. Other variables, notably levels of equality, are critical.

In combination, these developments have motivated the 'Beyond GDP' agenda. Whether for reasons of growth scepticism or out of concern that if GDP growth remains slack governments' performance legitimacy will suffer too, political leaders, civil servants and academics — among them Nicolas Sarkozy, Jacinda Ardern, Gus O'Donnell, Joseph Stiglitz and Amartya Sen — are promoting alternative yardsticks.

To assess these debates it helps to dig into the history and morphology of the 'growth paradigm' — the belief that economic growth is good, imperative, essentially limitless, and the principal remedy for a litany of social problems – and ask the following: when and how did this paradigm originate?

2. From Rain Dance to Nasdaq

One response was offered in 1960 by Elias Canetti. In quasi-Nietzschean vein, he invoked a transhistorical 'will to grow'. Humans are always striving for more. Whether the parent monitoring her child's weight or the state official seeking to augment her power, or the community expanding its population, we all want growth. The desire to accumulate goods, the drive for economic growth, the wish for prosperity – they are all innate to human social being. Humans in groups are driven to seek increase: of their numbers, of the conditions of production, and of the products they require and desire. The very earliest homo sapiens sought the enlargement of their "own horde through a plentiful supply of children."[1] And later, in the age of modern industrial production, the growth drive came into its own.

"If there is now one faith, it is faith in production, the modern frenzy of increase; and all the peoples of the world are succumbing to it one after the other. … Every factory is a unit serving the same cult. What is new is the acceleration of the process. What in former days was generation and increase of expectancy, directed towards rain or corn, … has today become production itself." [2] A straight line runs from the rain dance to the Nasdaq.

But this is to confuse the wiring of our current economy with the wiring of the human brain. Canetti's 'will to grow' doesn't withstand scrutiny. The diverse behaviours he describes can't be reduced to a single logic. The 'will' behind creating babies is quite unlike the will to accumulate acreage or gold. And the latter is relatively recent. For much of the human story, societies were nomadic or semi-nomadic, and organised in immediate-return systems. Stashes of food were set aside to tide the group over for days or weeks, but long-term storage was impractical. The accumulation of possessions would hamper mobility. The measures that such societies used to reduce the risks of scarcity centred not on accumulating stores of goods but on knowledge of the

[1] Elias Canetti (1984 [1960]) *Crowds and Power*, Peregrine, p. 108.
[2] Elias Canetti (1984 [1960]) *Crowds and Power*, Peregrine, pp. 465, 192.

environment, and interpersonal relationships (borrowing, sharing, and so on). The moral economy of sharing necessitates a muscular egalitarianism that is undermined by the accumulation of property.

Logics of accumulation — and, in the loosest sense, growth — were not initiated until the Neolithic revolution. Its technological and institutional transformations included settled agriculture and storage, class division, states, warfare and territoriality, and, later, the invention of money. Population growth joined with class exploitation and interstate competition to expand the sway of agrarian empires. Farmers enlarged the ploughlands, scholars penned proposals for improving the organisation of agriculture or trade, merchants amassed wealth, and rulers, seeking to enlarge population and tribute, extended their domains. Only now — in the post-Neolithic age — did gold achieve its fetish quality as the source and symbol of power.

Scour the documents from ancient civilisations and you'll find tales of competition for territory and the accumulation of property, but nothing that resembles the modern growth paradigm. No conception of 'an economy' that can grow, still less of one that tends to the infinite. And you'll find little, if any, notion of linear historical progress. Instead, cyclical cosmologies prevailed. A partial exception is the fourteenth century polymath, Ibn Khaldun. He developed a sophisticated analysis of growth dynamics. But his ideas were not widely adopted, and his theory is cyclical: it describes negative feedback mechanisms that ensure any economic upticks will necessarily hit barriers and retreat.

When, then, did the modern growth paradigm originate — and why?

3. Petty's Arithmetic

The evolution of the growth paradigm was integrally connected to the capitalist system and its colonial thrusts. The basic link between the growth drive and capitalism is transparent. The latter is a system of competitive accumulation. The former, in suggesting that the system is natural and brings benefit also to the '99%', provides ideological cover in that growth serves as an idealised and democratised redescription of capital accumulation. But there's more to it than that. The capitalist transition was to a system of generalised commodity production, in which formal 'productive' economic activity takes the shape of commodities interacting through the price mechanism, in a regularised manner. If earlier political-economic thought had construed its subject as the affairs of the royal household, during the capitalist transition a new model emerged, with an interconnected market field posited as essentially outside the state.

In seventeenth-century England, just as the universe was being re-imagined by Newton et al as a machine determined by lawful regularities, the idea that economic behaviour follows natural laws became commonplace. By the close of the following century, Richard Cantillon had presented the market system as self-equilibrating, a machine that functions in a law-like manner; Quesnay's *Tableau* had depicted the economic system as a unified process of reproduction; Adam Smith had theorised the dynamics of economic growth; and philosophers (such as William Paley) had developed the creed

that steady economic growth legitimates the social system and renders system-critical demands unnecessary and dangerous.

The same centuries experienced a revolution in statistics. In the England of 1600, the growth paradigm could scarcely have existed. No one knew the nation's income, or even its territory or population. By 1700 all these had been calculated, at least in some rough measure, and as new data arrived England's 'material progress' could be charted. Simultaneously, the usage of 'growth' had extended from the natural and concrete toward abstract phenomena: the growth of England's colonies in Virginia and Barbados, the 'growth of trade,' and suchlike.

But the capitalist transition revolutionised much more than the formal economy and economic concepts. As land came to be regarded as a commodity-like object, the idea — found to some degree in antiquity — that nature exists to serve the purposes of landowners and is fundamentally external to human beings, gained definition. The early-modern regimes of abstract social labour and abstract social nature (i.e. the constitution of labour and nature as commodities) were sustained by the scientific revolution, and also by the construction of capitalist time. Over centuries, time became flattened into an abstract, infinite and divisible continuum, one that permitted economic life to be re-imagined as subject to continuous growth and cultivation. Morality was upended, too, most significantly in the discarding of the age-old proscriptions against acquisitiveness.

The more that economic activity came to be marshalled behind the imperatives of capital accumulation, the more it became subject to regimes of 'improvement' and quantification. In Jacobean and Cromwellian England, these practices and discourses proliferated. Agrarian-capitalist improvement was fuelled by scientific discoveries. These, in turn, were spurred on by the navigational and martial demands of explorers, freebooters and conquerors. European settlers in the New World not only exterminated and subjugated 'new' peoples, but turned to objectifying and cataloguing them, drawing comparisons with their own kind and 'improving' them. 'Improvement' and its theologically-intoxicated transplantation to colonial locations generated new data and new demands for detailed knowledge. How profitable is this tract of land, and its denizens? How can they be made more profitable? Answering such questions was enabled by modern accounting techniques, with their sharper definition of such abstractions as profit and capital.

No surprise, then, that the first statistically rigorous accounting of the wealth of a country (as distinct from, say, a royal household) was conducted by a capitalist on a colonial mission. William Petty planted quantification at the heart of scientific economics, crafted to the purposes of English merchants and empire, and gaining ideological force from the sheen of objectivity with which economic statistics — or 'political arithmetic' as he termed it — comes coated. In his work the conquest of nature and the idea of nature as a machine, and of the economy as a productive engine, blended to produce a new concept of wealth as resources and the productive power to harness them in contrast to the mercantilist concept, centred on the accumulation of bullion.

Colonisation of the New World contributed powerfully to capital accumulation in Western Europe, but it also spurred Europe's philosophers to elaborate a racialised progress ideology. The question of what to make of the peoples encountered in the Americas, and what implications followed from their property arrangements, stimulated a new reading of the human story: a narrative of social progress. From the vantage point of the colonialists, if 'they' were at the primitive stage, had 'we' once occupied it too?

Centred on a mythical ladder that climbs up from barbarism to civilisation, the progress idea hammered the diversity of human populations into a single temporal-economic chain. By indexing the richer and higher-tech nations (and 'races') as history's vanguard, it justified their bossing of the rest. It was a manifesto that drummed out capital's rhythms, and later found new forms as 'modernisation theory,' 'the development project,' and so forth, articulated through a grammar of 'growth.' Through its marriage to progress and development, in the belief that social advance requires a steady upward ratchet in national income, growth gained its ideological heft.

4. The Globalisation of an Ideology

In the nineteenth and twentieth centuries, the consolidation and globalisation of capitalist relations was accompanied by the growth paradigm. The first half of the twentieth century saw its definition sharpen. A pronounced shift occurred from a rather vague sense — long prevalent — that government should preside over economic 'improvement' and 'material progress' to an urgent conviction that promoting growth is a matter of national priority. Factors behind the shift included intensified geopolitical rivalry, and the increasing 'muscularity' of states, with their expanded bureaucratic apparatuses, surveillance systems and welfare provision, as well as the segue from the age of empires to that of nation states, a shift that helped consolidate the discourse of the 'national economy.' In many countries the expansion of suffrage was an additional factor: rights were extended and an infrastructure and ideology of national belonging was constructed with the aim of incorporating the lower orders as citizens into the body politic. With the Great Depression, restoring growth became an urgent project of states, and provided the context for the national income accounting that eventually led to GDP.

The acme of the growth paradigm was reached in the mid twentieth century. Growth was firmly established everywhere: in the state-capitalist economies of the 'Second World,' the market economies of the West, and the postcolonial world too. It became part of the economic-cultural furniture, and played a decisive part in binding 'civil society' into capitalist hegemonic structures — with social democratic parties and trade unions crucial binding agents. It came to be seen as the key metric of national progress and as a magic wand to achieve all sorts of goals: to abolish the danger of returning to depression, to sweeten class antagonisms, to reduce the gap between 'developed' and 'developing' countries, to carve a path to international recognition, and so on. There was a military angle too. For the Cold War rivals, growth promised geopolitical success. "If we lack a first-rate growing economy," cautioned JFK on the campaign trail, "we

cannot maintain a first-rate defense."[1] The greater the rate of growth, it was universally supposed, the lesser the economic, social and political challenges, and the more secure the regime.

The growth paradigm, I suggest, is a form of fetishistic consciousness. It functions as commodity fetishism at one remove. Growth, although the result of social relations among people, assumes the veneer of objective necessity. The growth paradigm elides the exploitative process of accumulation, portraying it instead as a process in the general interest. As Mike Kidron and Elana Gluckstein note, as a system of competition "capitalism depends on the growth of capital; as a class system it depends on obscuring the sources of that growth." [2]

For a long time, GDP growth was widely assumed to be the route to prosperity. Since then, cracks have appeared. In the rich world, we are beginning to realise that continuous GDP growth leads not simply to wealth and wellbeing, but to environmental collapse and barbecued grandchildren. But growth is not its own cause. GDP mirrors the power structure and form of value of capitalist society, but it doesn't define the system's core goal. That goal is the competitive accumulation of capital, and the accounting principles that guide it are those at the level of the firm, not the state. Put differently, the relentless increase in global resource throughput and environmental despoliation is not principally the result of states aspiring to a metric – higher GDP – but of industrial and financial firms, driven by market competition to expand turnover, develop new products, and increase profits and interest.

If the above analysis is correct, critical debates on growth should not focus solely on GDP while being coy about capitalism.

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VILFREDO PARETO, TRATTATO, AND ITALIAN SCHOOL OF FISCAL SOCIOLOGY

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Abstract

In this study Vilfredo Pareto, whose economic and political views had been changed in his life time due to the transformation of political environment he had lived in, and as a result who had achieved to introduce one of the paradigms of sociological theory will be analized. And in last section, Pareto inspired Italian Fiscal School which puts political theory in center of its analysis will be explained.

Keywords: Pareto, Public Economics, Theory of Elits, Fiscal Sociology

JEL Code: A-14, H-30.

1. Introduction

As a conscious and sensible citizen we are all affected by the political atmosphere and political debates that surround us. But as professionals studying thescience of public finance we nearly neglect the inter-disciplinary bounds between theory of public finance and political theory. In this study Vilfredo Pareto, whose economic and political views had been changed in his life time due to the transformation of political environment he had lived in, and as a result who had achieved to introduce one of the paradigms of sociological theory will be analyzed. And in final section, Pareto inspired Italian Fiscal School which puts political theory in center of its analysis will be explained.

2. Vilfredo Pareto: His Life and Development of His Thought

Pareto, whose name can often be seen in public economics books, was not just a pure economist, but was also founder of the General Sociology paradigm, in which social phenomenon are analyzed in a holistic way. A brief look at his life gives us some clues about how an academician, who devoted first years of his career to pure economic theory turned out to be a sociological paradigm founder as a result of his frustration against the changing political atmosphere of his life time.

Born in 1848, Vilfredo Federico DamascoPareto, was son of a French mother an Italian marquis father. Pareto studied classics and engineering at the Polytechnic Institute of

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Turin. His graduation thesis, "The Fundamental Principles of Equilibrium in Solid Bodies" provided him with the basic model he would later use in his study of economics and society (Femia, 2005: 6). He first took a job as an engineer in a mine company where made business trips to England and Scotland. In those trips he made himself acquainted with political economy and he started to form his first political views (Marshall, 2007: 11). In time Pareto dabbled in radical politics, expressing extreme views in support of democracy, free trade and disarmament (Fermia, 2005: 7).

Besides forming his political views, Pareto also started his academic career. In the time being he draw away from Classical Economic School of Smith, Ricardo and Mill and became acquainted with Neo Classical Economic School. With the support of MaffeoPantaleoni – the most important advocate of mathematical analysis based Neo Classical School of Jean Walras in Italy – Pareto appointed a position in Lausanne University. (Bourkenau, 1936: 14). In Switzerland he produced his two volume "Coursd'EconomicPolitique" in which he analyzed the conditions of economic equilibrium and he expressed his views on free trade, state intervention and liberalism (Femia, 2005: 8). In the mean while he also continued to assault Italian political system and government (Femia, 2005: 8)

In 1907 he retired from his chair in Lausanne, partly because of a heart condition and partly because of his disenchantment with the discipline of economics (Femia, 2005: 10). But even before his retirement, between mid-1890's to year 1900, his political stance had changed radically and he became an anti-liberal and anti-democratic. After his retirement Pareto fully dedicated himself to political, philosophical and social issues and to develop a social system focusing on social interaction. He published his masterpiece "Trattato di SociologiaGenerale" – translated to English as "The mind and Society" – in 1916. Though he tried to keep distance and warn them to avoid censorship and despotism, Italian Fascists showered him with honors, because of his anti-democratic and anti-marxist views (Femia, 2005: 11). He died in 1923 a mere ten months into Mussolini's reign, and before the uglier aspects of fascism became obvious.

3. Economic Approach of Pareto

In welfare economics we often see the name Pareto. Concepts like first theorem of the welfare economics, Paretian criteria or Pareto improvement are discussed in detail in all public economics and microeconomics text books. In our study however those subjects will not be repeated but we will focus on the formation of the Pareto's economic views.

In the first place Pareto developed his own economic theory. His economic studies were aimed at verifying that laissez-faire is apolicy maxim that is consistent with a general economic theory founded on scientific (mathematical) principles (McLure, 2001: 41).

For Pareto, science of economics separates into two branches. In the first one of these two branches - which Pareto called "pure economic theory" – there is a deductive economic research field which assumes the existence of a homoeconomicus whose actions are hedonistic in everything. The researchers in this field make predictions about

a social structure by aggregating the actions of these homoeconomicus' (McLure, 2001: 41).

Second branch is applied or experimental economics. In this research field, one extracts economic models based on experiences or tendencies, and then comparative analysis with real world data is made.

According to Pareto, in first branch an idealized, desirable economic world is analyzed. While in second branch factors distracting this ideal system are investigated. For McLure (2001) such a design of economic analyses depends on Pareto's engineering education past. Just as first designing a machine and then testing its workability in real world. McLure names this economical approach "the mechanical analogy" (McLure, 2001: 41).

At the center of Pareto's pure economic theory there is the concept of equilibrium. Like in the proposition " ones welfare cannot be improved without deterioring the other's", equilibrium is a change to one condition results in other changes that act in the opposite direction (McLure, 2007: 26). But this term is only related to his pure economic theory. In experimental economics Pareto concentrates on the facts,that changes or disturbs this theoretical equilibrium.

Pareto's main aim was to limit the research field of pure economic theory and widen the fields of experimental economics and other experimental sciences which put the real world data at the center of analysis (McLure, 2001: 25). Because, according to him one experimental discipline can only analyze a specific part of a social phenomenon and by comparing different disciplines' evidences we can be able to reach a much more realistic explanation of that certain social phenomenon (McLure, 2001: 26).

Next, Pareto introduced a distinction between ophelimity and utility. The abstract quality of acts that lead to physical, intellectual and moral development is termed "utility", whereas ophelimity is a subclass of utility that is limited to the subjective and abstract quality of acts that satisfy a need or desire (McLure, 2007: 26). In economics, economic utility concerns the development of material wellbeing and economic ophelimity concerns the satisfaction of material needs and desires (McLure, 2007: 27). For Pareto utility is an indefinite and obscure concept. Moreover the term utility may be considered in terms of individual, the community or society as a hole (McLure, 2001: 42). On the other hand for Pareto ophelimity is a more scientific concept because individual need and desires are observable and measurable (McLure, 2001: 43).

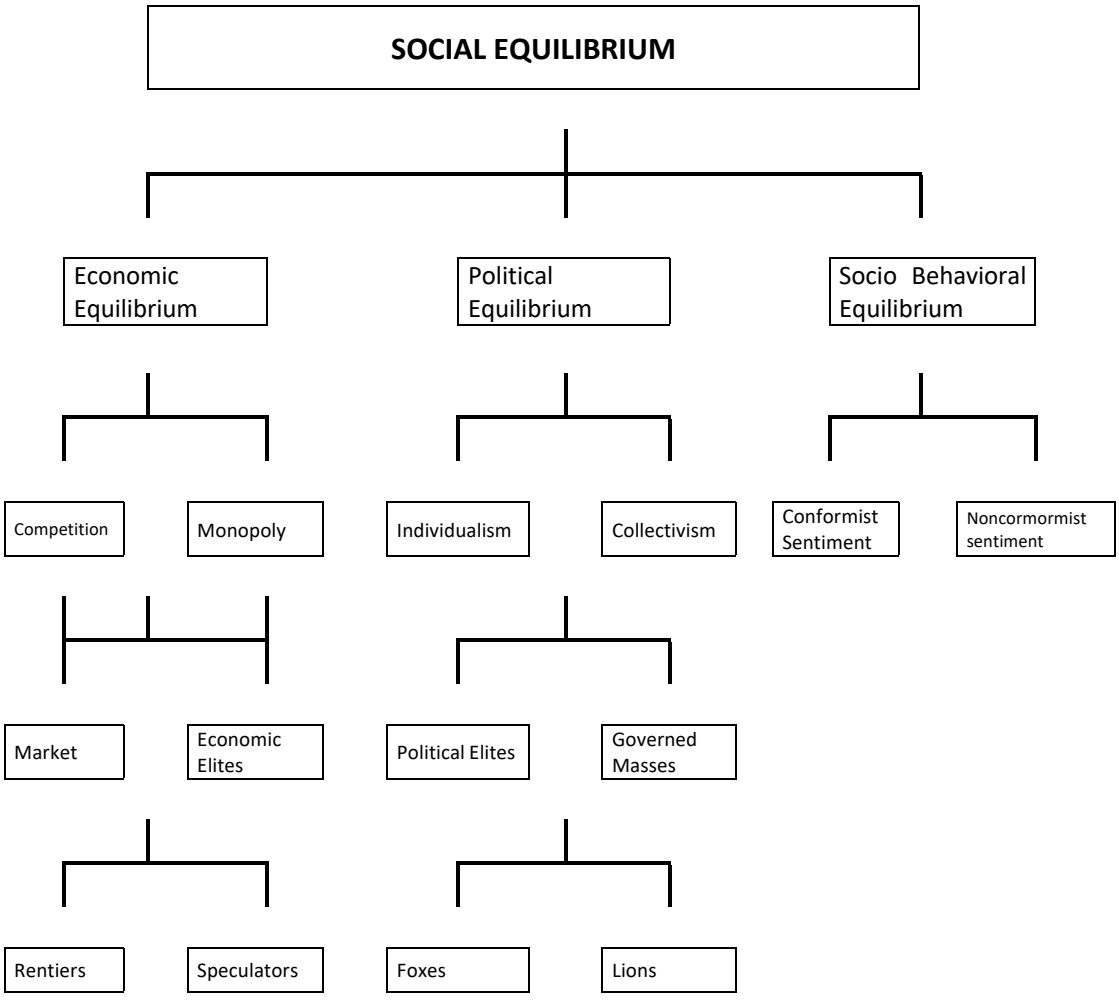
The distinction between the terms utility and ophelimity don't have any importance in today's highly specialized science of economics, because inter-disciplinary studies today are limited. But this distinction is the center of Pareto's general social system because the concepts of logical and non-logical actions depend on this very distinction. Where maximisation of ophelimity is related to logical consumption or production decisions of economic actors; maximization of utility is a sociological concept and related to individuals' non-logical decisions over their general welfare.

4. Pareto's General Sociology

First of all, according to our view, Pareto's general sociological system doesn't aim to analyze an ideal social system but, it is the positive analysis of the corrupted and degenerated political and social system of his times. In other words his opposition against liberal parliamentary system is not on philosophical or ideological level but his objection is against its real life appearance.

Figure (1) shows the Paretian social equilibrium, which results from the interaction between economic, political and socio-behavioralequilibrium.

Figure 1. Pareto's Sociological Analysis of Equilibrium



Source: McLure (2007, 44).

Economic equilibrium is determined by the principles of economic theory. But the other two, political and socio-behavioral equilibriums are the experimental parts of the social

equilibrium. In other words, these are the branches of a general system where Pareto's experiences and observations made him loose his fate in liberal - democratic system.

Different parts of the general sociology were produced in different periods of Pareto's life and his work was completed in 1916. For example he developed economic theory in his youth years where as elite theory was developed in his years in Laussane University or socio-behavioral equilibrium was produced in his retirement years (McLure, 2007: 27; Femmia, 2005: 16). But for the sake of logical integrity, Pareto's system will be handled following Richard Aron's approach, not by its conceptual developmental chronology.

Pareto's general sociology is an agent based, micro-sociological approach. It first starts with defining the concepts of logical and non-logical actions. For Pareto logical actions are the ones where the means – end relation in objective reality must correspond to the means – end relation in the mind of actor (Sarp, 2013: 95). Whereas non-logical actions are the ones which, means – end relation in objective reality doesn't correspond to the means – end relation in the mind of actor. One point must be made clear that, non-logical actions are not illogical actions (Sarp, 2013: 91). In other words, if logical and illogical actions are two opposite points (like black and white), non-logical actions are the points fall between these opposite points (like different shades of grey).

According to Pareto, accept from limited economic actions that can be analyzed in terms of ophelimity, nearly all every day actions of an individual are non-logical.

Non-logical actions of an individual depend on two concepts, residues and derivatives. Residues are basic and mostly non logical behavioral motives, whereas derivatives are the rationalization, are the effort to explain residues in a logical sense (Sarp, 2013: 103). In other words depending on the "a human is not a rationale but a rationalizing animal" motto, derivatives are the elements of rationalization.

In Paretian sociology there are 6 residues and 4 derivatives. Residues are,

i) The Instinct for Combinations

ii) Group Persistence

iii) The Compulsion to Express Sentiments by External Acts

iv) Sociality

v) Residues of İntegrity

vi) Sexual Residues.

Whereas derivatives are;

i) Assertion,

ii) Authority,

iii) Sentimental Ones

iv) Verbal Proofs.

The first aim of the Paretian sociology is to study non-logical actions as non-logical actions, and not to lend a logical appearance tonon-logical behavior (Aron, 1967: 115).

For example in Public Choice Theory voting behavior is explained as a politically motivated utility maximization. As for Paretian sociology, an individual's voting behavior is determined by his residual actions and he rationalizes this action by derivatives.

This behavioral system leads us to the second part of the Paretian sociology theory, the elite theory. As shown in Figure (1) two of the three factors of a social equilibrium are economic and political equilibriums. In a social system, economic and political elites try to keep the socio-behavioral system in equilibrium. They do this by addressing residual motives of the individuals (McLure, 2007: 125).

In Paretian sociology there are two kinds of elites, social elites and political elites. Social elites are the aggregate of economic and political elites. But the main actor here is political elites. They are the governing class and they determine who the economic elites shall be. And by this way they create a totalclass of social elites. Nature of elites forms the society or the social system (Sarp, 2013: 104). Elites use two methods in governing society, force and guile. If the masses allow themselves to be manipulated by elites, it is either because the elites control the means of force or because they succeed in convincing the masses (Aron, 1971: 159). A legitimate government is one which has succeed in persuading the many (Aron, 1971: 159)

According to Pareto history of societies is the history of political elites which appear, struggle, take power, enjoy that power, fall into decadence and, to be replaced by other political elites (Aron, 1971: 162). And each political elite tries to create his own social elite group by influencing the economic elites of the society. This is where the link between Paretian sociology and public finance appears.

5. Paretian Sociology and Italian Fiscal Sociology

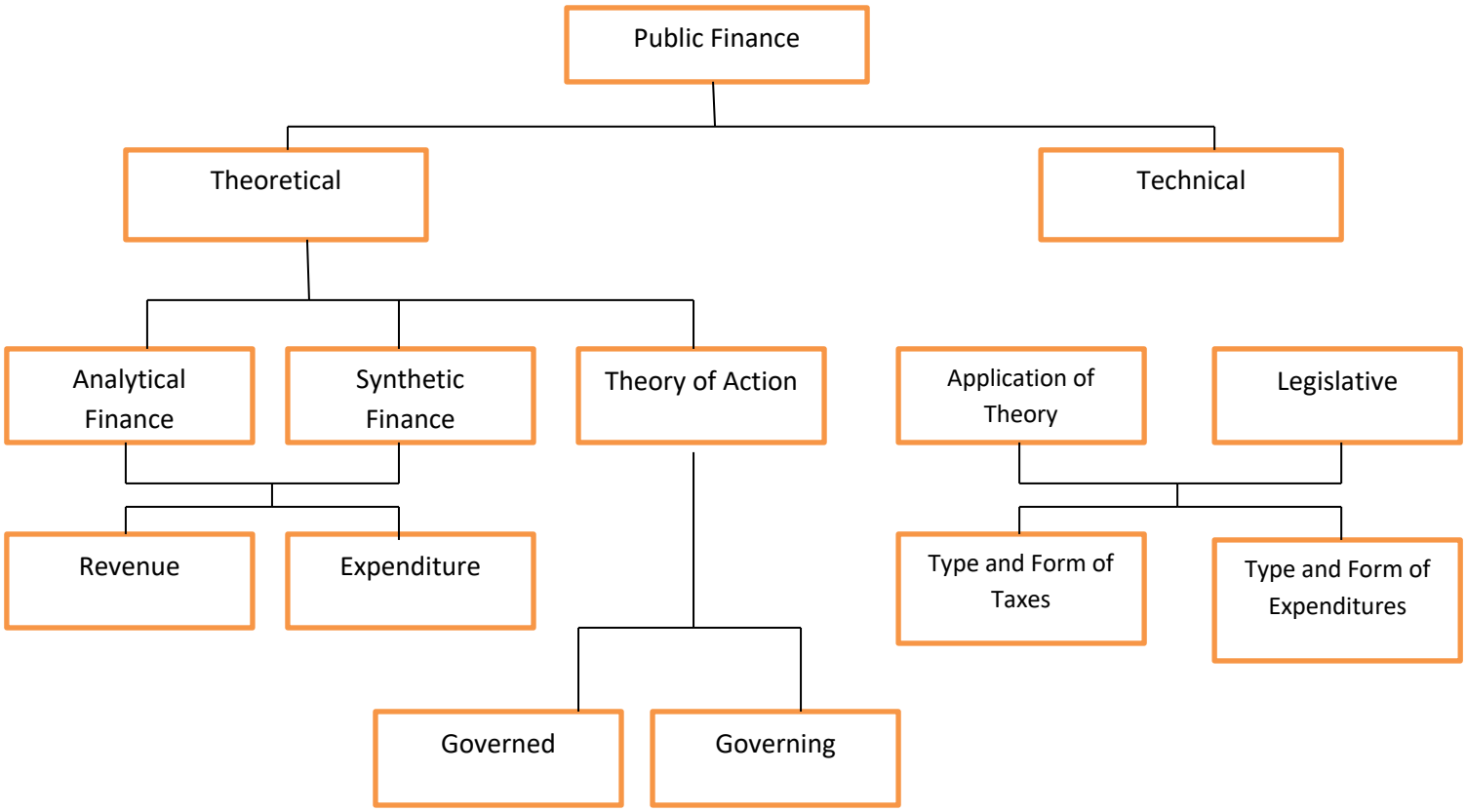
Citing Mauro Fassiani, McLure (2007) declares that there were three main stream public finance theories in Italy in early 1900's. First Viti de Marco and Mazzola's Neo Classical public finance approach. Second Murray, Loria and Puviani's political theory approach and third Borgatta and Sensini's sociological approach. Here the third one, Borgatta and Sensini'sparetian sociology based fiscal sociological approach will be analysed

Based on his pure economic theory, Pareto made great contributions to the theory of public economics. But he never made any direct contribution to the field of fiscal sociology. On the other hand his influence advanced through the works of his ex-students and followers, Borgatta and Sensini. These two, today are thought to be the founders of Italian Fiscal Sociology approach (McLure, 2007: 121 - 122).

Italian fiscal sociology focuses the role of fiscal policy in maintaining social equilibrium. Political elites may use fiscal policy instruments in two ways. First they use such instruments like fiscal incentives or tax benefits to create their own economic elites. Second they can use fiscal instruments in order to affect the socio-behavioral equilibrium. Here the main purpose is to persuade masses by deceiving them with fiscal policy. Targeted transfers or changing the burden of taxation from direct taxes to indirect ones are examples of these policy instruments.

Figure (2) shows the Sensini's classification of public finance in accordance with the Paretian sociological approach. Technical public finance for Sensini is the field of public finance where no inter-disciplinary studies are made. Examining or evaluating tax or budget laws are examples of this field. Analytic public finance is the field where relation between pure economic theory and theory of public finance is taken into account. Finally synthetic public finance emphasize on relation between theory of public finance and political theory whereas action theory refers to relation between fiscal politics and their effects on individual behaviors.

Figure 2. Sensini's Classification of Public Finance



Source: McLure (2007, 129)

6. Conclusion

As a result according to Paretian fiscal sociology or Italian fiscal sociology, apart from technical and analytical ones, all branches of public finance analysis should depend on logical and non-logical behavioral system of Paretian general sociology. Fiscal decision making processes should be re-accounted according to the political elites' different political motives. Some of our early theoretical or experimentalfindings regarding analytic or technical public finance may well be changed, if can re-set our perspective on the theory of public finance. Beside this, theories of technical and especially

analytical public finance must be reviewed in order them not to be part of apolitical deceiving process.

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SOCIOLOGICAL EFFECTS OF SPECIAL CONSUMPTION TAX REDUCTIONS: EMPIRICAL FINDINGS

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Abstract

Taxes are used to perform many purposes, particularly to finance of public services. Especially in times of economic recession, States have gone to tax reductions to stimulate the economy. In the short term, the preferred policy tool to revive the aggregate demand is the reduction of taxes on consumptions. In this respect, during 2016-2018 periods, government reduced special consumption taxes in Turkey. The purpose of this study is to determine how individuals perceived and how they behaved after the recent special consumption tax reductions. For this purpose, a survey was conducted with 1304 people as a face to face and online manner. The general results of this survey are show that the applications of special consumption tax reductions are accepted appropriate and very useful.

Keywords: Tax Reductions, Special Consumption Tax, Sociological Effect, Tax Awareness.

JEL Code: H20, H30.

1. Introduction

Today, taxes are used as an important and effective fiscal policy tool in addition to financing public services. States try to reach the macro-economic indicators they target by using taxes as a means of intervention in the economy. For this purpose, taxes are actively used in combating inflation and deflation.

Various criteria are used to classify taxes. The most common classification in practice; classification according to the subject: income taxes, wealth taxes and taxes on spending. Special consumption taxes which are the subject of this study are located in the classification of taxes on expenditures. In the short term, taxes on expenditures as a fiscal policy instrument are mostly used in the fight against recession and deflation. Reductions in taxes on expenditures will stimulate effective domestic demand in the short term. Governments generally consider the impact of these reductions on macroeconomic indicators and budget while applying tax cuts. While these impacts are important, the sociological impacts of these discounts or the attitudes and behaviors of the society towards reductions are also important in achieving the targeted success.

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In this study, primarily the conceptual framework is investigated; in the scope of review of the literature, empirical studies conducted so far regarding the special consumption tax in Turkey, the methods used, data sets and the results obtained were examined. Then, the special consumption tax reductions applied in our country in the period 2016 - 2018 and the reflections of these reductions on the budget were examined. In the last part, we presented and evaluated the results of the survey that we conducted on the sociological effects of special consumption tax reductions in Turkey.

2. Conceptual Framework

In the production and distribution stages of the economic process, or in only one of them, against general consumption tax on all goods and services except for exceptions and exemptions, taxes on specific goods and services are called special consumption taxes. Special consumption taxes, which are more favorable than other forms of taxation to minimize the reaction to taxation, are one of the oldest taxes together with customs (Turhan, 1998: 165-166).

Special consumption tax practices vary from country to country, but can be divided into three groups according to the objectives and evaluation criteria (Due & Friedlaender, 1981: 390-402):

- Special consumption taxes designed to improve efficiency in the use of resources (sumptuary excises);
- Special consumption taxes applied as the cost of utilizing public goods (excise taxes in lieu of charges);
- Governments frequently make some use of special consumption taxes for general revenue purposes (excises for general revenue).

In the international area, the harmonization of special consumption taxes by certain rules has been brought to the agenda for the first time in the member states of the European Union. The reason for the harmonization of special consumption taxes, the tax adverse effects in the free movement of goods in community member countries (Uzelturk, 2002: 383).

3. Empirical Studies on Special Consumption Tax

Since entry into force of the Special Consumption Tax Law in Turkey, most of the studies relating to excise duty are theoretical studies. The number of empirical studies is quite low.

Gergerlioglu & Sumer (2015), in the survey conducted with 1,000 persons in Istanbul; according to the married, widows and bachelors; low-income individuals, according to individuals in other income groups; primary school graduates, according to other graduating categories; it was concluded that the spirits sale taxes further decreased the social costs caused by the consumption of spirits.

Demir et. al. (2017), in 46 different city provinces in Turkey they made a survey with 1813 taxpayers; in general, tax reductions are satisfied with the citizens, the economy is revitalized, tax revenues will not reduce and will not disrupt public services.

Sanver et. al. (2017), in the survey conducted with 345 persons in Istanbul, Kocaeli, Sakarya, Duzce and Bolu provinces; they have reached the conclusion that the special consumption tax reductions will not increase employment, the increase in special consumption tax from luxury car sales is not fair and that this leads to the purchase of second hand and lower cylinder volume cars for taxpayers and also the special consumption tax reduction that applied to the veterans and their relatives while buying cars is proper, but the removal of special consumption tax from the sale of boats and yachts is not fair.

Gergerlioglu (2017), in the survey conducted with 515 persons in Istanbul; it was concluded that compared to other age groups, those in the age range 25-39 are more affected from taxes on fuel consumption while participants who earn 773-1000 TL are more influenced from taxes on fuel consumption compared to other income groups.

4. Special Consumption Tax Reductions Applied in 2016 - 2018

After the Special Consumption Tax Law came into force in Turkey, special consumption tax discounts were applied for various purposes, especially for revitalizing the economy.

To be implemented between the dates of 07.09.2016 - 30.06.2019 with the Law No. 6745; in order to renew the vehicles used in urban passenger transportation (taxi, minibus, bus, etc.) and commercial vehicles used in commercial cargo transportation, which are included in the list (II) attached to the Special Consumption Tax Law, the first acquisitions of the vehicles under the same tariff position order are excluded from the special consumption tax.

With the decision of the Council of Ministers No. 2017/9759 published in the Official Gazette dated 03.02.2017, the special consumption tax rate from yachts, boats and excursion ships in the list (II) attached to the Special Consumption Tax Law is 0%. The rate of special consumption tax on air conditioning and some white goods listed in (IV) has been zeroized until 30.04.2017. This period was extended until 30.09.2017 by the Council of Ministers Decision No. 2017/10106, published in the Official Gazette on 29.04.2017.

According to the decision of the Council of Ministers no. 2018/11818 published in the Official Gazette dated 17.05.2018, depending on the increase in international oil prices and foreign exchange rates; gasoline, diesel, LPG and it is decided that the increases in the prices of some petroleum products will be met by deduction from the special consumption tax and will not be reflected in retail prices.

To be valid until 31.12.2018 with the President Decision no. 287 of the Official Gazette dated 31.10.2018; special consumption tax rates on the 250cc and below motorcycles listed in the list (II) attached to the Special Consumption Tax Law have been reduced to zero; on the other hand, white goods in list (IV) have been reduced to zero. The special

consumption tax reductions were extended to 31.03.2019 with President Decisions of 535 and 540 published in the Official Gazette dated 31.12.2018. It was extended to 30.06.2019 with the President Decision of 843, published in the Official Gazette dated 21.03.2019.

5. Methodology of Study and Empirical Findings

The primary objective of the reduction applications made in expenditure taxes is to revitalize the economy by increasing the purchasing power of individuals. Therefore, the effect of tax reductions on macro-economic indicators is generally taken into consideration and the attitudes and behaviors of individuals against tax reductions are secondary. This study was conducted to measure the perceptions, attitudes and behaviors of individuals against the special consumption tax reductions applied in our country recently.

Study was conducted across Turkey with a total of 1304 people face to face and online survey.

5.1. Empirical Findings

The results of the survey conducted on special consumption tax reductions were subjected to OLS regression analysis. For this purpose, the mean of 3 survey expressions which were tested to be a factor, were taken and converted into a single variable. The mean of this factor is 3,74.

1- Special consumption tax reductions are required. (Strongly Disagree: 1, Strongly Agree: 5, Mean: 4,14)

2- Special consumption tax reductions are revitalized the economy. (Strongly Disagree: 1, Strongly Agree: 5, Mean: 3,94)

3- Special consumption tax reductions are reduced tax revenues. (Strongly Agree: 1, Strongly Disagree: 5, Mean: 3,13)

Regression analysis results can be summarized as follows:

- Perception about special consumption tax reductions differ significantly from demographic variables only in terms of gender. Statistically; according to the results, men have more positive perception than women about special consumption tax reductions at 10% significance level.

- Those who consider tax as an unnecessary payment to the state (individuals with negative tax awareness) have a negative attitude towards special consumption tax reductions (5% significance level).

- The level of satisfaction with special consumption tax reductions is higher for individuals with high level of awareness on special consumption tax than other individuals (10% significance level).

- Those who want to narrow the scope of the goods and services subject to the special consumption tax are more satisfied than the special consumption tax reductions compared to those who do not care (1% significance level).

- The positive perception of those who want to end the practice of special consumption tax in Turkey is higher than other individuals (5% significance level).

- Those who think that the special consumption tax on oil and petroleum products is high, they are more positive for special consumption tax reductions than for those who think it is low (1% significance level).

- Those who consider the special consumption tax from the goods harmful to human health as the cost of the health expenditures made to those who use these goods are generally negative towards the special consumption tax reductions (1% significance level).

- Those who think that special consumption tax should not be taken over white goods, the satisfaction level of special consumption tax reductions is very high (1% significance level).

- Those who think that the special consumption tax has a direct impact on expenditures are positive against special consumption tax reductions (1% significance level).

- Those who think that the special consumption tax on cars hinders the purchase of new cars is positively perceived against special consumption tax reductions (10% significance level).

- Cigarette etc. those who think that special consumption tax should be taken on the products that are addictive, they have a positive perception against special consumption tax reductions (5% significance level).

6. Conclusion

With the survey conducted with 1304 people in Turkey, attitudes and behaviors of individuals against the special consumption tax reduction has been measured. According to the results of the study; individuals generally have a positive attitude towards special consumption tax reductions; they think that the scope of the goods and services subject to special consumption tax should be narrowed and that the special consumption tax directly affects the expenditures they make. Moreover, the participation rate of individuals is quite high survey expressions which the ratio of special consumption tax taken on oil and petroleum products is high and the special consumption tax taken from cars prevents the purchase of new cars.

According to the results of OLS regression analysis performed with the data obtained from the study; the attitude towards special consumption tax reductions is significantly different according to gender. No significant difference was found in other demographic variables.

As a result, the recent special consumption tax reductions seem to be quite satisfactory from a sociological point of view, aside from macroeconomic targets. The fact that society cares about such reductions and planning of consumption expenditures taking into account reductions which indicate the density of individuals with rational expectations.

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THE RELATIONSHIP BETWEEN E-GOVERNMENT AND CORRUPTION: AN EMPIRICAL ANALYSIS USING PANEL DATA

Gamze ÖZ YALAMAN[1]

Abstract

E-Government can be defined as the use of information and communication technologies by the government in order to work more effectively share information and deliver better services to the public. It is known that e-government applications strengthen accountability, increase transparency and efficiency of the government. Corruption is a highly complex phenomenon which rooted in bureaucratic and political institutions and their effects vary from country to country. Given the socio-economic conditions, political and institutional infrastructure and other factors, it is difficult to make a generally accepted definition of corruption, but in its narrowest definition, abuse of public power for private interests. It is known that corruption creates negative effects on the economic growth of the countries, tax structure, quality of public services, and the rule of law.In this context, the paper tests the effects of e-government on corruption via panel data analysis by using a large data set consisting of 193 countries belonging to the period 2003-2017. While examining the relationship between e-government and corruption, many control variables that may affect this relationship were taken into consideration. The empirical findings of the study show that e-government has a statistically significant and negative effect on corruption. Consistent with the common literature, the findings of the study emphasize that the increase in e-government applications reduces corruption.

Keywords: E-government, corruption, panel data, internet usage

JEL Code: D73, H11, O57

1. Introduction

With the development of the 1990s, the Internet has become an indispensable element of individuals and states. It is seen that states have been using the potential of the internet in order to improve and perfect the management processes since the mid-1990s. This situation led to the emergence of e-government concept.

According to the United Nations (2002), e-government can be defined as the use of information and communication technologies in order to provide state services more effectively and efficiently to citizens and businesses. As it can be seen from the definition, it is aimed to provide efficient, effective and transparent services through e-government applications. In addition, it is thought that e-government will strengthen

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relations with enterprises and sectors, strengthen citizens because of easy access to information and thus increase the confidence in the state and provide a more effective citizen-state relationship. As a result of these positive aspects, less corruption, increased transparency, greater convenience in obtaining services, increased public revenues and / or decreasing expenditures are expected (Panzardi et al., 2002: 2).

Corruption is a highly complex phenomenon whose roots are deeply rooted in bureaucratic and political institutions, and whose effects vary from country to country and can be described as the most straightforward definition of the abuse of public power for private interests (World Bank, 1997: 8). In theory, the impact of E-government practices on corruption can be positive or negative (Bhatnagar, 2003: 30; Elbahnasawy, 2014: 114). However, the number of empirical studies testing the impact of e-government practices on corruption is insufficient (Elbahnasawy, 2014: 114; Kim et al., 2009: 42; Andersen, 2009: 209; Nam, 2018: 281). In this context, the effects of e-government on corruption are tested using a large data set consisting of 193 countries belonging to the period 2003-2017 by using panel data analysis. While examining the relationship between e-government and corruption, control variables that may affect this relationship were also taken into consideration. The empirical findings of the study show that e-government has a statistically significant and negative effect on corruption.

2. Literature Review

Several commonly used definitions of e-government are as follows. According to the United Nations (2002), e-government can be defined as the use of information and communication technologies in order to provide state services more effectively and efficiently to citizens and businesses.

According to the World Bank definition, e-government is a system that uses state-owned information and communication technologies to promote the empowerment of citizens, improve service delivery, strengthen accountability, increase transparency, or transform relations with citizens, the private sector and / or other government institutions in order to increase the efficiency of the state.

West (2004) describes the e-government as the state's provision of information and services in the internet or other digital media.

According to Palvia and Sharma (2007), e-government is a general term for web-based services of institutions at local, state and federal levels.

As it can be seen from the definitions, it is aimed to provide efficient, effective and transparent services through e-government applications. In empirical studies, it is seen that e-government applications provide benefits such as less corruption, greater transparency, greater convenience in obtaining services, increased public revenues and / or decreasing expenditures, and this situation can positively affect the trust in the state (Furlong, 2005: 61-67; Welch et al., 2005; 386-387; Tolbert & Mossberger, 2006: 362-363).

The negative effects of corruption, which can be defined as abuse of public power for private interests, may vary from country to country and the determinants of corruption have been examined in different studies (Serra, 2006: 225; Dimant & Tosato, 2018: 344-345).

A few empirical studies examining the impact of e-government practices on corruption are available in the literature. For example, Shim and Eom (2008) stated that e-government has a positive effect on corruption. Andersen (2009) explores the relationship between e-government and corruption in 149 countries for 1996 and 2006. The findings of the study show that the increase in e-government use reduces corruption. Krishnan, Teo and Lim (2013) state that the level of corruption in countries will decrease as e-government applications mature. Elbahnasawy (2014) reveals that e-government is an important tool in reducing corruption by using a data set covering 160 countries and 1995-2009 years. Nam (2018) examines the relationship between e-government and corruption by using cross-sectional data and he states that political, economic and cultural characteristics are important factors that could limit the e-government's mitigation effect on corruption. For example, the anti-corruption effect of the e-government is significantly reduced in cultures where individuals perceive an unequal power distribution and feel uncomfortable with uncertainty. Another important finding is that more democratic countries are able to control corruption effectively.

The literature introduce many different control variables which have significant effect on the relationship between e-government and corruption such as internet services, human capital, telecommunications, inflation, public expenditures, tax revenues, internet users, internet security, per capita national income, public activity, political stability, the rule of law, accountability (Braun & Di Tella, 2004: 77; Serra, 2006: 225; Elbahnasawy & Revier, 2012: 311; Elbahnasawy, 2014: 119).

In this context, the paper investigates the effects of e-government on corruption by taking into account many control variables that may affect this relationship.

3. Data, Model and Empirical Resuts

In this study, the effects of e-government on corruption are tested by using panel data regression with a large data set consisting of 193 countries belonging to 2003-2017 period. The data were obtained from the World Bank and the United Nations. The predicted regression model and the control variables are displayed in equation 1 and equation 2, respectively.

$$Corruption_{it} = \beta_0 + B_1 E - Government_{it} + \sum_{k=2}^{n} \beta_k ControlVariables_{it} + \varepsilon_{it} \quad [1]$$

$$\sum_{k=2}^{n} \beta_k \mathrm{ControlVariables_{it}} = B_2\ \mathrm{InternetServices_{it}} + B_3\ \mathrm{HumanCapital_{it}} + B_4\ \mathrm{Telecommunication_{it}} + B_5\ \mathrm{Inflationn_{it}} + B_6\ \mathrm{GovernmentExpenditures_{it}} + B_7\ \mathrm{TaxRevenue_{it}} + B_8\ \mathrm{InternetUsers_{it}} + B_9\ \mathrm{InternetSecurity_{it}} + B_{10}\ \mathrm{GDPpercapita_{it}} + B_{11}\ \mathrm{GovernmentEffectiveness_{it}} + B_{12}\ \mathrm{PoliticStability_{it}} + B_{13}\ \mathrm{RuleofLaw_{it}} + B_{14}\ \mathrm{VoiceandAccountability_{it}} \quad [2]$$

The control variables are Internet Services, Human Capital, Telecommunications, Inflation, Government Expenditures, Tax Revenues, Internet Users, Internet Security, GDP Per Capita, Government Effectiveness, Political Stability, Rule of Law, Voice and Accountability. In this context, 8 different models were estimated. The empirical findings in Table 1 show that e-government has a statistically significant and negative effect on corruption without changing depending on different control variables.For estimating the coefficients of a single equation 1, the random effect estimator is used following by the existence literature. However, the diagnostic tests indicate the presence of heteroscedasticity and autocorrelation for all models. In order to deal withthese problems, GLS estimator is used (Baltagi, 2008: 14-15). The results are robust and indicate a negative relationship between e-government and corruption.

Table 1. Regression Results

	Model-1	Model-2	Model-3	Model-4	Model-5	Model-6	Model-7	Model-8
E-Gov	-3.494**	-3.666**	-9.484*	-0.328*	-0.372***	-7.120**	-3.494**	-7.120**
	(-2.32)	(-2.49)	(-1.92)	(-1.86)	(-4.08)	(-2.31)	(-2.12)	(-2.31)
İnternet Services	0.941*	1.064**	3.146*	0.169**		2.485**	0.929*	2.485**
	(1.82)	(2.11)	(1.86)	(2.25)		(2.36)	(1.65)	(2.36)
Human Capital	1.069**	1.163**	3.492**	0.228***		2.193**	1.133**	2.193**
	(2.08)	(2.33)	(2.07)	(3.59)		(2.08)	(2.01)	(2.08)
Telecommunication	1.497***	1.507***	3.277**	0.120	0.433***	2.578**	1.421**	2.578**
	(2.95)	(3.05)	(1.97)	(1.74)	(5.21)	(2.49)	(2.57)	(2.49)
Inflation	-0.0007	-	0.00385		-0.00108**	-0.00328**	0.000520	-0.00328**
	(-0.82)	-	(1.47)		(-2.33)	(-1.99)	(0.59)	(-1.99)
Gov. Expenditures	-0.00331	-	-0.0151		-0.000611	-0.0277***	-0.00376	-0.0277***
	(-1.10)	-	(-1.57)		(-0.30)	(-4.59)	(-1.15)	(-4.59)
Tax Revenue	0.00897***	0.00577***	0.00695		0.00723***	-0.00151	0.0132***	-0.00151
	(4.08)	(3.09)	(1.00)		(5.71)	(-0.35)	(5.63)	(-0.35)
İnt.Users	-0.000223	-	-0.00201		-0.000459	-0.00161	-0.00112	-0.00161
	(-0.31)	-	(-0.91)		(-0.95)	(-1.15)	(-1.50)	(-1.15)
İnternet Security	-0.0000006***	-0.0000007***	-0.0000005			-3.70e-08	-0.00000041*	-3.70e-08
	(-2.96)	(-3.69)	(-0.67)			(-0.08)	(-1.72)	(-0.08)
GDP Per capita	0.00000326***	0.00000346***	0.0000170***	0.0000012***	0.000002***	0.00001***	0.000004***	0.00001***
	(2.97)	(4.72)	(5.27)	(3.10)	(3.04)	(6.01)	(3.26)	(6.01)
Gov. Effectiveness	0.432***	0.359***		0.364***	0.451***		0.814***	
	(10.51)	(10.87)		(20.27)	(15.54)		(38.10)	
Political Stability	0.0625***	0.0901***		0.0535***	0.0533***	0.806***	0.168***	0.806***
	(2.76)	(4.61)		(5.42)	(3.55)	(29.73)	(7.57)	(29.73)
Rule of Law	0.465***	0.525***		0.558***	0.477***			
	(9.57)	(12.65)		(25.23)	(14.58)			
Voice and Account	0.0233	0.00306		0.000785				
	(0.86)	(0.14)		(0.07)				
Constant	0.00448	-0.120**	-0.811*	-0.121***	0.0479	0.701**	-0.185	0.701**
	(0.03)	(-2.26)	(-1.84)	(-6.06)	(0.79)	(2.50)	(-1.22)	(2.50)
R^2	0.88	0.89	0.07	0.89	0.91	0.48	0.89	0.48
Heteroscedasticity	6.0e+32 [0.0000]	4.3e+32 [0.0000]	2.1e+31 [0.0000]	60164.75 [0.0000]	9377.95 [0.0000]	2.7e+30 [0.0000]	13489.65 [0.0000]	2.7e+30 [0.0000]
Autocorrelation	43.765 [0.0000]	51.289 [0.0000]	62.799 [0.0000]	202.145 [0.0000]	110.593 [0.0000]	59.650 [0.0000]	47.910 [0.0000]	59.650 [0.0000]

Parantez içindeki değerler t istatistikleridir (***p< 0.01, **p< 0.05, *p< 0.1).

4. Conclusion

E-Government is a web based system aiming to provide the right information to the citizen on a common point in electronic environment in a secure, uninterrupted and fast way by considering the user needs of public services. With the increase in e-government applications, it is known that the accountability is strengthened, the transparency and the efficiency of the state increase.

It is very difficult to make a generally accepted definition of corruption, and different definitions of corruption are made by international organizations. A generally accepted definition of corruption is made by the World Bank as abuse of public power for private interests. The effects of corruption are a highly complex phenomenon that changes from country to country. It is known that corruption creates negativities on the macroeconomic and administrative indicators of countries.

In this context, the paper tests the effects of e-government on corruption by using panel data analysis with a large data set consisting of 193 countries belonging to the period 2003-2017. While examining the relationship between e-government and corruption, control variables that may affect this relationship were also taken into consideration. The empirical findings show that e-government has a statistically significant and negative effect on corruption. In accordance with the literature, the findings of the study show that the increase in e-government applications reduces corruption.

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EVALUATION OF TAX CRIMINAL LAW (REGULATION-PRACTICE-TRIAL)

Yusuf KARAKOÇ[1]

Abstract

Illegalities about the tax-related duties are regulated in the Tax Procedure Law as Tax Misdemeanors and Tax Crimes according to their qualities and the weight of injustice of the action in tort. Although these provisions, which underlie the Tax Criminal Law, have not systematical significant deficiencies, it is encountered the problems concerning today's conditions and about the compliance with the Turkish Penal Code and the Misdemeanor Law. In this context, there are deficiencies of Tax Criminal Law relating to regulation, practice and trial. In this study, a general evaluation of Tax Criminal Law is carried out; problems are identified, and solutions are offered. This study is expected to contribute to the progressing preparatory work for an extensive alteration to the Tax Procedure Code.

Keywords: Tax Criminal Law, Tax Misdemeanors, Tax Crimes, Tax Procedure Law, Turkish Penal Code, Misdemeanor Law

JEL Code: K14, K34, K42

1. Introduction

The tax law relationship is a public law-based relationship between State and persons. This relationship must be run in accordance with the rules that serve to regulate this relationship. But it is known that in some cases taxpayer and tax responsible may violate the law intentionally or unintentionally. Unlawful acts are a subject of different types of tax offenses and / or misdemeanors depending on their qualifications and different punishments are imposed on these offenses and / or misdemeanors. The section of the tax law that is related to the acts against to tax code and their punishments and/or sanction is called as Tax Criminal Law.

It is encountered with difficult situations with respect to today's conditions and compliance with the regulations of the Turkish Penal Code and the Misdemeanor Law, although there are no systematically significant shortcomings in the regulations that form the basis of Tax Criminal Law and take place in Tax Procedure Code. In this regard, there are deficiencies of Tax Criminal Law on regulation, practice and trial. In this study, a general evaluation of Tax Criminal Law is carried out; problems are identified, and solutions are offered. This study is expected to contribute to the progressing preparatory work for an extensive alteration to the Tax Code[2].

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[2] Since the paper is not an article and there is a limitation about total page and word, to submit detailed explanation and references have not been possible, it has been contented with selected bibliography.

2. The Subject and the Scope of the Tax Criminal Law

Tax Criminal Law examines punishment or sanctions relative to crimes and misdemeanours arising from acts contrary to tax laws. Tax crimes and misdemeanours are, as a rule, accepted as (fiscal) crimes and misdemeanours committed against the State Treasury. The purpose of the tax crimes and misdemeanours and sanctions imposed them is to ensure the timely and proper implementation of tax laws. The timely and proper payment of the taxes prevents both the reduction of the Treasury's income and serves the collection of public revenues which constitute the financial source of public services in turn public interests.

The subjects of the tax criminal law are the illegal acts against to Tax Law that named crimes and misdemeanours; also, their punishment and sanction. In this respect, it is important to note that use only Tax Procedure Code at resolution of disputes or conflicts arising from the implementation of the Tax Criminal related rules will be inadequate. Because Tax Procedure Code is not the only Code that regulate sanctions and punishment of the acts contrary to Tax law. The unlawfulness on the collect stage of public revenues is regulated by Public Receivables Collection Procedure Code. This Code includes some crimes and their punishments. Also, Customs Code and Anti-smuggling Code include parallel regulations with Tax Procedure Code about crimes and misdemeanours. For this reason, this other Codes should be taken into consideration when make arrangements in the field of Turkish Tax Criminal Law. Otherwise, different degree, contradictory, contrary sanctions will appear about the unlawfulness on the same law field.

3. Assessment of the Tax Criminal Law

- In the case that Tax Criminal Law, broadly defined as Financial Criminal Law, it will not be limited with the Tax Procedure Law; the crimes and misdemeanors which are regulated in Public Receivables Collection Procedure Code, Customs Code and Anti-smuggling Code should be included. Currently, Tax Criminal Law refers to Tax Criminal Law in the narrow sense based on only the Tax Procedure Code. In this field, regulations, practice and trials are made based on this qualification only. But legal system should be considered as a whole. The Financial Criminal Law that serves the same legal interest should be considered and keep in mind together. It is necessary to harmonize these regulations, considering the need to create a whole. Otherwise, it is not possible to reach justice and to provide legal security with incompatible and nonproportional regulations-practice-trials.

- Penalties do not direct correspond to the sustained loss and / or the cost; it should have a deterrent effect. However, it should not have a lethal-destructive-ruinous effect. Therefore, the penalties must be certainly and clearly defined in the Law, by taking into account the inflation and current interest rate and the principles of legality -legal security-certainty.

- Taxpayers who cause a tax loss are subject to a penalty corresponding to half of, one-fold or three-fold of the tax loss. The sanctions defined as “fold” are considered as nonproportional, over-punitive and impossible to obey.

- It is necessary to make it known that some part of the acts of special irregularity is a subject of the tax loss misdemeanors as for the other part of them is an attempt of smuggling crime. As a consequence of this, if tax loss penalty and/ or custodial sentence about tax smuggling are applied after the closure of the accounting period, the special tax irregularity

penalty should not be applied. Special tax irregularity penalty should be applied as result of the illegal acts that in accounting period.

- In order to prevent to penalty concentration, the single punishment should be given for the misdemeanors that are committed by the same act.

- It is necessary to apply administrative fine for tax smuggling acts if they also cause tax loss. But in this case, basic tax loss penalty should be applied and waited for to give additional punishment until a decision of the court approve that crime is actually committed and it is committed by taxpayer. Unless this proposal is implemented, conflicting court decisions in positive law will be continuing to exist.

- The application of penitence and rectification should continue to prevent of apply tax loss penalty; but the connection to the non-prosecution of smuggling crime (connivance) should be corrected. In case of taxpayer's application of penitence and rectification, criminal investigation and prosecution should be continued; however, the benefit from penitence and rectification regulations and the fulfilment of their conditions should be accepted as a reason for discounting.

- The structure of the conciliation commissions, the nature of their decisions- effects and consequences should be clarified. The relations between conciliation- judicial remedy; conciliation- remission of fines should be clarified. If taxpayers apply for penitence and rectification, they should also be benefit from the remission of fines. Infringement to the conclusions of conciliation should result in the cancel of the conciliation.

- The rate difference should be eliminated in remission of tax fines. The same discount rate should be determined and applied for all tax penalties. Otherwise, the nonproportional, bizarre results will appear inevitably.

- The existence of recidivism causes many problems. There is no way to eliminate these drawbacks completely. Therefore, the repeal of the regulation that regulates the increasing of the sentence in case of repetition is the most appropriate solution. But the situation of the taxpayers who commit a tax misdemeanor over and over again should be considered when they apply to favored regulations like conciliation and deferment.

- It would be useful to clarify the issue of successive offense and the laps of times. The topics of separately punishment of the crimes that are committed at the same accounting/ taxation period, the increasing punishment because of their characterization as successive offense, the acceptance of the successive crime until the determination of the crime should be discussed. And fair- reasonable regulation should be made as a result. And also there is a necessity of clear regulations about specifies the date of the crime on tax smuggling crimes that does not cause the tax loss to determine to start of the laps of time.

- The definition and scope of the breach of tax secrecy and conducting personal affairs of taxpayers should be made clearer and more proper also their punishment should be regulated in Turkish Tax Procedural Code instead of the reference to the Turkish Criminal Code. Besides, the crimes and misdemeanors that are regulated in different part of the Tax Procedure Law or other laws, should be collected in the section of tax crimes, misdemeanors and offences in Turkish Tax Procedure Code.

4. Conclusion

- The penalties which are expressed in terms of "fold", should be given up. It is considered proper to regulate to basic penalty corresponding to half of the tax loss, also reduced penalty corresponding to quarter, aggravated penalty corresponding to one-fold of the tax loss, considering current inflation and current interest rate.

- It is known that applying both custodial sentence and three-fold tax loss penalty in case that tax smuggling act also cause tax loss is discussed with regards to both domestic law and case-law of the European Court of Human Rights. First, contradiction between the relevant provisions of the Tax Procedural Code (VUK.m.344, 359) and the third paragraph of Article 15 of the Law on Misdemeanors is considered as a reason of discussion. This contradiction can be partially resolved within the context of the special law-general law, the lex posterior – legi priori. However, complete termination of the discussions is not possible. The fact that the same verb causes for trial twice is contradictory with the effect of definitive judgment and the rule of non bis in idem. Double jeopardy is not possible; and no decision / penalty can be given twice based on the same reason. But currently the sanctions are not the same nature so it may be considered as legitimate.

- The administrative fines are not the sanctions in the same nature with the liberty binding punishments (custodial sentence). As a result, an administrative fine is imposed for tax loss; and the offender shall be punished with a liberty binding punishment because of the criminal nature of the act. There is no legal obstacle to do this. But three-fold tax loss penalty must be terminated, instead of it, an amount of judicial fine should be preferred in addition to custodial sentence. In positive law, causing of the tax smuggling is considered as aggravating circumstance of the tax loss misdemeanors. But instead of this, tax loss should be regulated as an aggravating circumstance of the tax smuggling crime. The payment of the administrative fine also should be considered as extenuating circumstance.

- The conversion of the courts that make judicial proceedings on tax crimes to the court with special authority will be useful. In this context, in the case of the establishment of a financial police-prosecution-court chain, tax crimes and criminals will be followed healthier. Also, the court of appeal must be the same department of the Judicial Council about the illegality to Tax Procedure Code and Anti-Smuggling Code to provide coherent case-law.

- It should not be forgotten that, law system is a whole, and stability is essential to constitute of law.

- Shortly and precisely; a foreseeable, obeyable, applicable tax penalty system should be established.

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RENDERING TAX LAW JUDICIAL WITHIN THE SCOPE OF THE GROUNDS FOR CHALLENGE OF PETITIONS

Serkan AĞAR [1]

Abstract

In this study, the emerging perception differences to the detriment of the individual with regard to the grounds for challenge of petitions in public receivables disputes before the administrative courts have been assessed and several recommendations and criticisms have been put forth within this framework.

Keywords: Petition, administrative, jurisdiction, procedure, tax law.

JEL Code: K34, K38, K41.

1. Introduction

As per the article 36 of our Constitution, the restriction of a judicial right deriving from the right to legal remedies or the right to a fair trial is a violation of the Constitution. Furthermore, in our country which has adopted the administrative regime, interpreting the rules related to administrative justice to the detriment of the individual would also hinder the principle of the rule of law.

The grounds for challenge of petitions stated in the law should be assessed through taking the case law and the principles and rules of the administrative regime into account and trying to protect the theoretical and practical aspects in a balanced manner.

In this study, the emerging perception differences to the detriment of the individual with regard to the grounds for challenge of petitions in public receivables disputes before the administrative courts have been assessed and several recommendations and criticisms have been put forth within this framework.

2. Grounds for Challenge of Petitions in Tax Law

According to the article 3 of the Administrative Jurisdiction Procedures Law numbered 2577;

a) The names and surnames or titles and addresses of the parties and, if applicable, their attorneys or representatives and the identity numbers of real persons,

b) The subject and reasons of the case and the based evidence,

c) The written notification date of the administrative action constituting the subject matter of the case,

d) The amount of the dispute in cases related to tax, due, legal fee and similar financial responsibilities and their additions and penalties, and in full remedy actions,

e) The nature and year of the tax or tax penalty constituting the subject matter of a tax case, the date and number of the issued notice and the account number of the taxpayer, if

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applicable, shall be indicated in the petitions.

According to the first paragraph of the article 5 of the same Law, separate cases shall be filed against each administrative action. However, a case may be filed with one petition against a number of actions for actions among which a material or legal correlation or a causal link exists.

3. Perception Difference

The use of the statement of "Rendering administrative justice juridical" has been inspired from the paper of deceased Administrative Justice Prof. Lûtfi DURAN titled "Administrative Justice Has Become Juridical" written in 1982 (Lûtfi DURAN, "İdari Yargı Adlileşti…", İdare Hukuku ve İlimleri Dergisi (SARICA'ya Armağan), Yıl 3, Sayı 1-3, 1982, s. 53-83.). With the description of "becoming judicial" Duran refers to the differentiation of the judicial system through interventions to the jurisdiction of the administrative justice with laws, which do not comply with the administrative regime; the reason this description has been used in this study is to attract attention to the practices of especially the tax courts that will result with "rendering the tax disputes judicial". These practices will be examined from the tax disputes perspective within the jurisdiction of administrative courts. Today, we are facing the practices of the administrative justice itself in a trend to render tax disputes into judicial cases whereas in the past, the wrongness of transferring the issues that should be solved within administrative justice to judicial cases was being discussed.

4. Conclusion

In a case filed in the administrative court against a payment order including more than one tax claim (such as delinquency, administrative fine, adequate pay, etc.); the ruling of the court for the refusal of the petition on the grounds that a separate case shall be filed for each claim within the payment order means, above all, the restriction of the right to legal remedies. Plea against this ruling, which is "final", is not possible. As per the article 36 of our Constitution, the restriction of a judicial right deriving from the right to legal remedies or the right to a fair trial is a violation of the Constitution. Furthermore, in our country which has adopted the administrative regime, interpreting the rules related to administrative justice to the detriment of the individual would also hinder the principle of the rule of law. For example; a citizen should sacrifice filing cases for each of the items within the payment order and 374,00 TRL per case as the 2019 legal fee and post costs because of this ruling of the court even though fixed fees are implemented in administrative justice; whereas s/he would pay one fourth of the proportional fee to be calculated by 68,31 per thousand (1.707,75 TRL) if the same case worth 100 thousand Turkish lira was filed before the judicial justice. In other words, if 10 cases should be filed, 3.740,00 TRL shall be paid. The same amount would be paid in judicial justice for a case worth around 200 hundred Turkish lira with the same fees and costs whereas the total claims within the payment order may not even be 10 thousand Turkish liras under these circumstances. It is self-evident that the law-makers did not assume such a meaningless result.

In this study, the emerging perception differences to the detriment of the individual with regard to the grounds for challenge of petitions in public receivables disputes before the administrative courts have been assessed and several recommendations and criticisms have been put forth within this framework.

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THE RULE OF THE DECISION TO STAY OF EXECUTION IN TAX JUSTICE AND THE PROBLEM OF COMMENTS REFLECTING BIAS

Doğan BOZDOĞAN[1]

Abstract

There are basic and procedural requirements for the decision to suspend the execution. The procedural requirements include a justified decision to suspend the execution. In this case, the above-mentioned ihsas-ı rey situation may be encountered.

In this study, firstly, the legal nature and conditions of the concept of stopping execution will be explained in detail. Then, the issue of ihsas-ı rey will be elaborated and the cases where the refusal of the judge is requested will be indicated. Ultimately, a number of recommendations will be made to prevent the issue of ihsas-ı rey as to the reason for the decision to suspend the execution.

Keywords: Tax jurisdiction, stay of execution, comments reflecting bias

Jel codes: K34, K10

1. Introduction

The principle of impartiality of the judge in the administrative judiciary is important. The referee may be asked to deny the judge. Regulations related to this subject have been made in the relevant provisions of the Civil Procedure Laws and 5271 numbered Criminal Procedure Code.

The tax judiciary consists of the parties and individuals. The disputes that may arise at this point are resolved in the tax courts, regional administrative courts and the Council of State. If the administrative proceedings are applied, it is necessary to decide on the suspension of the executive if the damages that are difficult or impossible to compensate will arise and be clearly against the law.

However, there are basic and procedural requirements for the decision to suspend the execution. There is a rule that the decision to stay of execution under procedural conditions is justified. In this case, the above-mentioned commercial situation may be encountered.

At this point, the legal nature and conditions of the concept of stay of execution will be explained in detail. After that, the problem of comments reflecting bias will be elaborated and the cases where the refusal of the judge is requested. Finally, some suggestions will be made in order to prevent the problem of the decision to stop execution.

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2. Stay of Execution

One of the consequences of tax litigation is the stay of execution. Unless otherwise provided for in the law, a lawsuit or appeal against administrative courts should, as a rule, stay of execution of administrative proceedings. At this point, it is necessary to explain the administrative procedure for a better understanding of the suspension of execution.

2.1. Administrative Process Concept

Various definitions are given in the literature regarding administrative procedure. A general definition of administrative action may be explained as one-sided legal procedures established by the administration in the field of administrative law (Gözübüyük, 2015: 143). According to a more detailed definition, the administrative action, the administration of public interest in the field of administrative law, the effective and efficient manner of public services in a way to ensure that the service is seen in accordance with the unilateral declaration of management and without the need for the request and to approve the legal status of the relevant ie, the executive property, which can be applied practically, to benefit from the presumption of compliance with the law, subject to judicial review and, as a rule, are established in writing (Atay, 2009: 407-408).

The decision of the Constitutional Court dated 21.09.1995 also shows that the administrative procedure is implicitly defined. Accordingly, sahip the administration has many powers outside and above the powers of private law persons. With these powers specific to the administration, it can make actions and actions on individuals with a one-sided declaration of will and legal effects. Persons may be subject to various obligations without the assistance of an authority or authority to carry out these procedures. On the other hand, administrative proceedings use the presumption of legality and it is presumed that the administrative procedures are appropriate and lawful.

2.2. The concept of the Stay of Execution, The Legal Nature and Conditions

The most important assurance against the execution of the administrative action is the suspension of execution. In order to prevent the executive from showing the effect of the administrative procedure on the exercise of the eligibility and performance of the law, the operations of the administration on the basis of superior public power in the areas where the administration is responsible for the law, in order to ensure that the public services are seen in an effective manner, in continuity, efficiency and stability; when it is necessary to implement it, it is an institution in a cancellation case that suspends the qualifications of being obliged to comply with the law and the obligation to be obeyed by everyone until the end of the case, in other words, rendering the mentioned features of the managerial procedures inoperable (Kandil, 2007: 2).

In the end, the suspension of the executive, with the nature of the execution of the law with the effect of lawfulness of the administrative procedures that benefit from the presumption of compliance with the administrative procedures to prevent the compensation of difficult or impossible to prevent the implementation of the process until the end of the cancellation of the case, as a rule can be given by the administrative courts on the request of the concerned, the cancellation case and the rule of law is an effective measure. The explanations made here

are in fact a result of the narrow evaluation of the executive. In the broadest sense, the cessation of execution not only covers administrative proceedings but also judicial decisions. At this point, opening a tax case is in the definition of stopping the execution in a narrow sense and constitutes the result of stopping the administrative process only.

Administrative regime in many of the already adopted country and of course the principles adopted in terms of the consequences of initiating administrative proceedings in Turkey, an administrative decision against being filed in a jurisdiction, otherwise the front unless deemed by the law, it does not stay of execution of the administrative decision (Kıratlı, 1966: 173). In this case, the court should clearly decide to stay of execution. In line with this principle, the principles of the court's decision to stay of execution of the execution are determined in the 1982 Constitution and Administrative Procedure Act (APA).

The results of the evaluation of these laws together are as follows (Yüce, 2013: 192);

• In the case of administrative action, it is necessary to produce compensation that is difficult or impossible to compensate.

• The administrative procedure must be clearly against the law.

• The decision to stay of execution shall be granted on condition that a guarantee is made.

In this context, it can be said that the stay of execution depends on some conditions. These conditions are divided into two as to procedural and merit.

Terms and conditions;

• Compensatory power or impossible damages,

• The administrative act is clearly against the law.

Procedural conditions;

• Justification in the decision,

• A case has been filed with the request of cancellation,

• Written request,

• A deposit is requested.

With the realization of these conditions, it may be decided to stay of execution.

2.2.1. Conditions for the Conduct of the Executive

The important point to be mentioned here is the necessity that the unlawfulness and irregularity of the damages to be carried out at the same time can be made at the same time. In other words, if the execution of an administrative act is against the law but does not cause any irregular or irreparable damage, or if it is not only against the law, it cannot be decided to stay of execution in relation to this administrative procedure. Article 125 of the Constitution, as well as Article 25 of the Law No: 2577, the conditions for the realization of these conditions are explicitly stated. In the event that these two conditions are fulfilled by the administrative jurisdiction, it may be decided to stay of execution by stating the reasons for which the administrative action is clearly contrary to the law and the damages which are difficult or impossible to compensate if the transaction is implemented. At this stage, these two requirements should be elaborated on the merits.

2.2.2.Standing Conditions of the Stopping of Proceedings Rationale in the Decision

It was stated in the previous headings that the suspension of execution was based on various conditions. these conditions are divided into two as procedural and fundamental. In the circumstances of the procedure, it is necessary and therefore important that a lawsuit has been filed with the request of cancellation, a written request has been made, the justification in the decision to stay of execution and the demand for a guarantee are required. These conditions are described below.

While there is no provision regarding the obligation to give reasons in the decision to stay of execution before the execution of the Law no. 2577, the discussions about the obligation to give reasons with the entry into force of this Law have ended. Although it is stated in Article 27 (2) of IZUK that it can be decided to suspend the execution by the administrative court, in the continuation of the jurisdiction, the reasons of the administrative procedure are clearly contrary to the law in the decision of the execution, is mandatory.

APA's 27/2. and in accordance with Article 125 of the 1982 Constitution, the court has to give a reason for the suspension of execution. Both items have been emphasized for irreparable or irreparable damages and it is mandatory to specify what these damages are. Writing the decision to suspend the execution without justification or writing the justification that does not clearly explain the unlawfulness is incompatible with the regulation in Article 125 of the 1982 Constitution, which orders the reasons for the suspension of execution. The most important criticism of the reasoning in the case files decided to stay of execution is to extend the decision process. In fact, when the judge decides to suspend the execution, the case file is actually examined. Here, the judge faces the risk of rey. Because the reasoned decision can be evaluated as the decision of the judiciary to express an opinion on the case. Due to some reservations about the award of the judge's refusal, not to use the institution to stay of execution of the administration may result in a decision that can make the administrative court decisions (Ermumcu 1998: 36). In this case, it constitutes a legal problem. Therefore, it is useful to re-evaluate the decision to suspend the execution of the decision to be justified.

3. Denial of Judge in Tax Trial

The principle of impartiality of the judge is important in the proceedings. In cases where the judge cannot objectively pursue the case, the judge either refuses him or the plaintiff or one of the defendant parties may refuse the judge. Article 29 of the Law on Civil Procedure states the reasons for the refusal of the judge. Accordingly, the reasons for the refusal of the judge;

• Have given advice or guidance to one of the parties on the case,

• In the case of either party or third party under the terms of the law without the need to declare his reyini,

• Having heard or acted as witness or ehlihibre or arbitrator or judge in the case,

• The case is up to the fourth degree (including this degree),

• If there is a case or an enmity between the two parties in the case,

• It is usually a suspicion of a bias of the judge and the discovery.

4. The Concept of Specialization (Game Definition)

Although there is no necessity and need, it is accepted that the judge, whose game is shown in a trial, cannot be impartial. Because the judge must decide according to the judgment at the end of the trial, if it does not comply with the trial before the completion of the game, if prejudiced and thus violates the principle of fair trial.

No. 5271 of the Criminal Procedure Code 24/1. in which the judge may be refused. According to this; In cases where the judge cannot look at the case, the refusal may be requested, and the rejection may be requested for other reasons that would put his impartiality to doubt. In the law, the reasons why the impartiality of the judge was rejected and the objectivity of the judge was not counted. The reasons for the refusal of the judge can be categorized under 6 headings (Centel, 1996: 89);

- Personal relationship with the accused or victim;
- Tense relationships,
- Relations with other persons,
- Print,
- Previous activities,
- Don't show the game.

In practice, the last item, which is known as the game, is encountered. If there is a situation that would affect the judge's presence or impartiality, the refusal of the judge may be requested (Constitutional Court Individual Application Decision, 2014/1725).

5. Examination Of The Decision To Suspend The Reasoned Execution And The Refusal Of The Judge

As it is known, Article 27, paragraph 2 of the Law No. 2577, it can be decided to halt the execution if the administrative process is applied, if the compensation for the damages is difficult or impossible, and if the conditions of the administrative action are clearly unlawful, the reason for the execution is given.

Considering that the decision to suspend the execution in the administrative jurisdiction places should be clearly stated as justified, it is controversial whether or not the defendant in the defendant position declared the gerek judges' rule gerek upon the decision to stop the reasoned execution. (Caravelolğlu, 2001: 1348-1349) Here is the reason for the rejection of the reason stated in the law does not occur. Because at this point ihsas-rey is legitimate. Because it's 125/5. Article 27/2 of the Law No. 2577. in the case of justification and against the law ve. For this reason, in accordance with the provisions of the Constitution and the Law, the judge has expressed his opinion on the unlawfulness of the transaction without having yet to file a file. For this reason, this can be called di legitimate award rey s and the rejection stated in the law is not the reason.

The decision to suspend the execution and the reasoned decision should be evaluated and the decision of this request to be considered should be evaluated in two ways. The first is that the request to stay of execution is made during the opening of the case, and the second is to make the request in the proceedings.

In the first case, if the judge decides to stay of execution at the beginning of the case while the cancellation case is filed, it cannot be commented on. Because the case has not yet started to appear and the judge has not formed any opinion. At this point, the decision to stop the reasoned execution at the beginning of the case can be considered as legitimate ihsas-ı rey.

In the second case, if the cancellation case is requested, if one of the parties requests to stay of execution and the judge decides to stay of execution on the justified basis, the legitimate legitimacy in the first case can be discussed. Because the case began in the judge and has reached a certain point is likely to have formed a number of convictions. In this case, there will be a risk of showing the side of the judge in the reasoned decision. This will lead to the request for the refusal of the judge.

6. Conclusion

The prosecution of a judicial authority against an administrative decision does not require the suspension of the execution of the administrative decision, unless otherwise specified in the law. In this case, the court should clearly decide to stop execution. At this point, the decision to stop execution is subject to certain conditions. In general, these conditions can be classified in narrow terms, as the basic and procedural conditions.

The reason for the decision to suspend the execution is the reasoning of the decision between the procedural requirements. The necessity of reasoned decision is a problem in terms of extending the period for a structure which is connected with the principle of economics such as tax judgment. In addition, another problem is that the jurisdiction or judge may be deemed to have heard about the case in question. If the judge must decide on the basis of his judgment, he will be prejudiced and thus violate the principle of a fair trial, if he does not comply with it, before the trial is completed. This will ultimately reveal the problem of ilyid-i rey.

The reason for the reasoned decision can be evaluated as two situations. Here, he asks for a request to stay of execution of the case in which the case was requested. In the first case, if the execution is requested at the beginning of the case, this legitimate ihsas-ı rey can be counted. If the case is demanded to stay of execution of the case, this can also be deemed illegitimate. Because while the case is still in the judge may have formed a certain opinion about the case. This situation requires the refusal of the judge.

As a recommendation at this stage;

• 24/1 of the Criminal Procedure Law no. 5271. in which the judge may be refused. According to this; In cases where the judge cannot look at the case, the refusal may be requested, and the rejection may be requested for other reasons that would put his impartiality to doubt. It would be appropriate to include the reasons for which the impartiality of the judge was rejected and the reasons for his impartiality to be doubted.

• In the case of administrative proceedings, the request for the suspension of execution may be filed with the cancellation of the case and the request can be closed. Thus, the risk of loss can be eliminated,

can be offered.

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AN EVALUATION OF PERMANENT ESTABLISHMENT / DIGITAL NEXUS CONCEPTS IN THE E-COMMERCE FIELD AND TAXATION IN TERMS OF INCOME TAXES

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Abstract

The business models are rapidly changing by the influence of globalization and technology. As an outcome of this transformation, new e-commerce business types requires new tax legislation in terms of both domestic and international tax laws.

In this study, efforts on the taxation (income and corporate tax) of the commercial activities in the form of e-commerce on the digital workplace is put forward. In addition, the discussions about new regulations are discussed. The study is also supported by the experience of tax inspection conducted by the author of this study. The main argument supported by the study is the need to reorganize related regulations and take into account the authority of source country taxation in the field of electronic commerce, since the fact that income is generated within the digital workplace not in physical workplace.

Keywords: Digital Nexus, Permanent establishment, e-commerce, OECD Double Taxation Treaty,Limited Taxpayer

JEL Code: H20, H24, H25

1. Introduction

The limit of the application of a country's tax laws is the borders of the country where the state's sovereignty right applies. In terms of taxes on income (income and corporate tax), the taxpayer is determined within the borders of the country and the subject of the tax is formed by following it. In terms of these taxes, due to domestic legislation, limited liability and full liability commence at this point. The main condition for limited and full liability is the settlement criteria. While the full taxpayers are taxed on a worldwide scale, the limited taxpayers who are not residents of the country are taxed only on the income obtained in the country. If the full taxpayer obtains income from another country, then the distinction is made between the resident country and the source country (the country of obtained income). After this point, the issue arises as the issue of international double taxation. The main point to be solved here is the dilemma that the resident country or the source country has the right to taxation.

In the case of international double taxation treaties, the resident country and the source country dilemma for business profits is resolved through the permanent establishment (or permanent representative). Accordingly, in the event that commercial earnings are obtained

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in the source country through the permanent establishment (or permanent representative), the authority to tax is given to the source country with limitation of income from the permanent establishment. Apart from this, the authority of taxation is the state of the resident country. The basis of this taxation model is based on the argument that the country in which the income (value) is created is the resident country. However, in the text of the double taxation model treaty, the permanent establishment concept is organized as a physical structure. The main reason why the permanent establishment is considered as a physical structure is that the conventional business approach requires a permanent facility.

While, there is a significant recognition of the permanent establishment in the national and international tax legislation, in today's practice, the meaning of the physical workplace has declined considerably in the fields of e-commerce. The importance of the physical workplace has decreased significantly, especially in service sales transactions (internet advertising, finance, logistics, news broadcast, cloud computing, participatory social networks, entertainment services, etc.). At this point, the concept of “digital nexus” was started to be discussed intensively. Despite the fact that the model treaty text has not been changed in the OECD side to this extent yet, however important discussions are being carried out in order to make a minimum taxation based on the digital workplace.

2. Turkey Legislation / Limited Taxpayer In Brief

Tax laws, like other laws, find their application within the sovereignty boundaries of the country(Özbalcı, 2007: 77).Therefore, due to the manifestation of sovereignty non-resident individuals and legal entities in Turkey are subject to tax on their income obtained from Turkey. The criteria for business profit is to have a permanent establishment or permanent representative in Turkey andthe profit should be achieved by means ofthese places or these representatives (PITL Art. 7-CITL Art.3).

3. OECD Double Taxation Treaty Regulations For Business Profit

OECD Model Double Taxation Treaty which Turkey is a party of,according to article 5 and 7, as a basis,business profit shall be taxed in the resident country.However, in the event that the activity is carried out through the workplace in the other source country, the source country shall have the authority to tax, limited to the earnings attributed to the workplace(Gelir İdaresi Başkanlığı, 2014).

For non-residents, the workplace (permanent establishment) determines the limits of the taxation authority in the source country.In the event that the country is a permanent representative with contractual authority, it is accepted that the company has a permanent establishment.Thus, the permanent representative is defined through the concept of permanent establishment.

4. The Basis Of The Taxation Of Commercial Earnings And Discussions

By means of this physical workplace in the country of origin, it is ensured to provide sufficient economic asset threshold in that country and tax is paid to this country due to this economic nationality.This economic nationality approach was introduced by a delegation of economists

(Bruins, Einaudi, Seligman and Sir Josiah Stamp) commissioned by the League of Nations after the First World War(Bruins et al., 1923).

The economists who prepared the abovementioned report; In their assessment of the competence of taxation, they concluded that the importance of attaching great importance to the places where the business profit was created and the various physical places that contributed to it contributed to the creation of income.From this point of view, the concept of economic nationality was later included in the OECD model agreement.

In the last decade, the physical workplace (permanent establishment) requirement for the necessary and sufficient economic presence (for economic nationality) has become considerably controversial.The most concrete step of the current discussions was the 2013 report named“Addressing Base Erosion and Profit Shifting-BEPS” published in 2013 by the OECD, as request of the G20 leaders as a result of the negotiations in 2012.

In 2014 and 2015, two reports on the number 1 action, the full name of which is “Addressing the Tax Challenges of the Digital Economy”, mainly focused on the permanent establishment under the most important measurement proposal(OECD, 2014, 2015).In this context, first of all, can the exceptions for auxiliary or preparatory actions be changed or even eliminated? The question has been emphasized.Secondly, the idea of adopting digital workplace (digital nexus) as well as the concept of classic physical workplace is emphasized.Third, the significant presence test has been emphasized beyond the digital workplace alternative(Caveltiet al., 2019).

It can be stated that there is still a great debate on the harmonization of the existing digitalized economic conditions and the framework treaty provisions.Besides, a complete consensus has not been achieved yet.

5. Previous Tax Inspection Detections About The Issue

The business model of a firm engaged in electronic commerce based on a previous tax inspection conducted by the author of this work is explained below.

XXX Company

The company is a kind of vehicle Technology Company which provides passenger services to passengers and passengers in the system by taking advantage of the application services on smartphones.

Processes performed by the XXX electronic platform are carried out step by step as follows.

• The passenger starts the application that he has downloaded to his/her smartphone in advance and selects the address of the destination. The transport fare is shown to the passenger for the destination, the passenger sees this fee and calls the vehicle call option.

•After the journey is completed, the price of the gross transportation service is collected by XXX on the credit / debit card system on and sent to the Netherlands directly. 20% of the total amount is taken as a commission by XXX and the remaining 80% is transferred to the driver's account on weekly basis (total).

XXX 's does not have a central or branch in Turkey. The company offers passenger and driver services from the Netherlands.This company has not beensubjected to any tax assessment

due to company's business model (not having any physical offices or representatives in Turkey).

6. Conclusion

Technology and globalization are rapidly transforming the business world.Nowadays, digitalized products produced within the framework of new business models reach the customer in a place far from the physical workplace.Therefore, it does not seem fair and reasonable to limit the taxation authority of the source country to the physical workplace.Although a taxation method based on physical workplace and the taxation authority is given to the country where the company is a resident of the enterprise, it does not correspond to the current business models.

These conditions must be correctly analyzed and in accordance with the digitalized economy structure, the country tax legislation and OECD model treaty provisions should be directed to a demand-side approach from supply-side approach.In other words, the country where the end-consumer is located (source country) has to be more competent, not the country where the physical workplace is.

In this context, digital workplace and significant presence testing approaches can be considered as reasonable methods.In the new digitalized business models, the place of production of goods or services becomes less prominent, but since the demand for the same goods and services is more prominent, this place contributes more to taxable income.

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EXAMINATION OF TAX ADMINISTRATION BY DIGITALIZATION: TAXATION OF SHARING ECONOMY; COUNTRY EXAMPLES AND EVALUATION OF TURKEY

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Abstract

The sharing economy or collaborative economy is a new economic model that uses online platforms to share individuals' assets, resources, time and capabilities on a scale that was not previously possible. There is no clear consensus among international economic institutions on its definition.Service providers, users and platforms that bring them together are the sides of this economy.Airbnb, Uber, Taskrabbit are the platforms created by this new economic model.

The fact that the sharing economy is a functioning economy through online platforms makes it difficult to evaluate within the framework of tax and legal regulations such as traditional economy.In order to determine whether the income obtained from the sharing economy is a primary or ancillary source of income, to clarify the tax obligations, to clarify the status of the parties involved in the sharing economy transactions and to ensure efficiency in the taxation, an approach that is not an 'one-size-fits-all' approach should be adopted, but according to each event and on a tax basis.

In this study, taxes, which are the subject of sharing economy which is a new economic model, and cooperation with platforms and determination of taxpayer awareness will be included.Models and practices for increasing awareness of the taxpayers implemented in cooperation with the platforms of the sharing economy taxation in the EU countries will be examined further assessment will be made regarding the size of the economy and taxation in Turkey.

Keywords: Sharing Economy, Taxation, Digital platforms, Tax compliance

JEL Code: H2, H24, K34

1. Introduction

The sharing economy is technology applications that allow individuals to share goods and services through information and communication technologies, internet platforms, and are also known to the user as “peer to peer economy” or “collaborative economy”.The sharing economy, which has begun to be seen in the last few years, is an economic model that enables the emergence of new platforms that allow the production and consumption of goods and services.

The Uber, Airbnb, TaskRabbit platforms within the sharing economy provide the possibility of renting a variety of services on a daily or hourly basis, including driving, renting, or using personal skills from other users through a personal computer or mobile application for their payment to consumers.

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At this point, these economic models, which are based on individuals making agreements on the internet to share the assets or skills they possess, significantly affect the enterprises operating in traditional commercial structures such as taxis, limousine services and hotels. For this reason, the concept of sharing economyshould be made in terms of new legal arrangements, whether the flexibility or changes in existing regulations should be ensured, the new regulations or changes will be made, how these will be done and propose the agenda for how can be the proper relationship between technological arrangements and technological reforms.

First of all, the concept of sharing economy will be tried to be defined especially in the context of international literature. In the second part of the study, the parties operating in the sharing economy will be explained and the cooperation platforms, which are the most important actors in terms of taxation, will be included on sectoral level. In the third part of the study, the size of the sharing economy, the taxes it is the subject and the taxpayers of these taxes will be mentioned. In the fourth chapter, the importance of cooperation with platforms in the taxation of the sharing economy and the related country practices are included. In the last part of the study, data and evaluations concerning the taxation of the economic model of the size of the sharing economy in Turkey is evaluated.

2. The Concept Of Sharing Economy

The phenomenon of sharing economics, especially in the media and in the academic literature, which has shown a significant growth since the crisis of 2008, attracts much attention as an umbrella concept, whose borders are still blurred.

In its decisions of September 2015 and October 2015, the European Parliament announced the sharing economy as follows: “the sharing economy, or collaborative consumption, is a new socio-economic model that has taken off thanks to the technological revolution, with the internet connecting people through online platforms on which transactions involving goods and services can be conducted securely and transparently” (EPRS,2016b:3).

The term “collaborative economy” refers to “business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals” (EC, 2016:5).

3. Parties of Sharing Economy

According to the European Commission, the actors involved in the sharing economy can be classified in three categories. (EPRS,2016a:6) :

-Service providers sharing assets, resources, time, and skills: these may be private individuals serving at regular periods (peers) or professional service providers

-Users of services offered by service providers,

-collaborative economy platforms that connect providers with users and facilitate transactions between them, also ensuring the quality of these transactions e.g. through after- sale services (handling complaints), insurance services, etc.

4. Evaluation of the Value Created by the Sharing Economy and It's Taxation

4.1. Services Offered in the Sharing Economy and Estimated Economic Value

The rapid change in technology, the economic crises experienced, the change in consumer models in the business world, changing the consumption models and acting with environmental concerns, led many people to search for different sources of finance and shopping and changing the way they made holidaysThe five sectors with the most activity in the sharing economy and the platforms in these sectors (with high economic value) are listed as follows. (EPRS,2016b:4):

-transportation (Uber, BlaBlaCar),

-retail (Etsy, eBay),

-accomodation (Airbnb, ShareDesk),

-service and labour (TaskRabbit, Shareyourmeal, Elance),

-finance (Kickstarter, Kiva, Indiegogo),

Annual growth rate of the share economy exceeds 25% (EPRS,2016b:4). In 2016, the size of the sharing economy was 26.5 billion Euros.

4.2. Determination of Taxes and Taxpayers on the Sharing Economy

Since a number of transactions are conducted in tripartite relations through a platform, each taxpayer and each tax case must be considered separately.This situation will result in an obligation related to income tax and VAT if the revenue obtained exceeds a certain threshold.

Platforms can act as intermediaries and undertake legal responsibility for the collection of income in this activity. This may lead to concerns similar to the concerns of B2C platforms in the sharing economy, their size and tax implications caused by other multinational companies. (EPRS,2018:18).

In this context, personal income tax is to be considered as a tax that must be taken into consideration for the services provided by service providers.If the supplier conducts its activities within the framework of its own personal capacity, the income earned by the individual supplier is included in the income tax base. (EPRS,2018:19). When the supplier operates within a business, it no longer falls under the subject of income tax.Both the service providers and online platforms in the sharing economy are, in principle, subject to indirect taxes starting with VAT obligations.

5. The Role of Cooperation with Platforms in the Taxation of Sharing Economy and Country Applications

5.1. Role of Cooperation with Platforms

The fact that all transactions on a platform where data is recorded, leaving digital traces allows the platforms to report these operations objectively. This provides the possibility to benefit

from technology to improve tax management and frees sharing actors from monitoring a large number of small-scale P2P participants, especially small providers and self-employed. (EPRS,2018: 22).This also prevents a potential tax mismatch on behalf of small businesses and avoids the administrative burden of taxation (Aqib&Shah,2017: 26).For this reason, the first step regarding tax obligations is to increase the awareness (P2P) for individuals acting as service providers, especially on sharing economy platforms.Basically, P2P providers serving as failures are not naturally experienced in required tax record-keeping and filing obligations (Rahim et al, 2017: 453). If tax is collected by the Platform and if record keeping is supported by information technologies reporting from the sharing-based economic platform, some of the administrative burden will be alleviated. At this point, the most fundamental requirement is to determine the threshold at which the service provider determines the tax payer.

5.2. Country Applications

In the EU, some countries have taken various measures to promote tax compliance in the sharing economy.

In France, the tax return form, known as 'automatic reporting of revenues for online platforms', and a number of information elements for each user responsible for taxation, are attached directly to the tax statement.In this tax declaration, a copy of the information per user is sent to the relevant user by online(OECD,2018:98).

A system established in Estonia, in September 2015 and since February 2016, allows drivers to register with a system where the transaction between service providers and the user is recorded by the platform.The platform then sends the information to the tax office about the income generated by the drivers involved in the ride-sharing system, which are automatically added to the tax returns based on the advanced online tax system (OECD,2018:99).

In the Netherlands, an agreement was signed between the Amsterdam city administration and Airbnb in 2014, requiring the platform to collect the city's tourism tax on behalf of service providers (EPRS,2016a: 161). Airbnb has been the pioneer of this model by transferring the tourist taxes that constitute 5% of the accommodation fee and transferring them to the state, in this model, where the homeowners also pay tourist tax (determined as %5 of the accomodation price) as well as the tax they will pay for the short-term lease.

6. The Value Created by the Sharing Economy in Turkey and it's Evaluation in the Terms of Taxation

6.1. The Size of Sharing Economy in Turkey

There is no research in the European Commission or the OECD level about the size of the sharing economy in Turkey. This new economic model, most current data about Turkey, contained in the report by PWC carried out the market research instititue Faktenkontor GmbH between June and August 2017 and based on a survey which represents on over 4500 consumersfrom six countries including Turkey and Austria, Belgium, Germany, the Netherlands, Switzerland (PWC,2017: 5).

Sharing economy throughout the year among the countries surveyed, with expenditure amounting to 1,031 euros per person to use Turkey realized the highest average spending (PWC,2017:6).

The estimated size of the market share in Turkey's economy is 38.3 billion euros.

6.2. The Taxes which are Sharing Economy Subject to in Turkey

In Turkey, service providers and platforms as a player of the sharing economy actions are evaluated in framework of income tax, value added tax and corporation tax. Income Tax Law Article 37 deals with the income generated from commercial activities without the definition of commercial activity and is considered to be commercial gain.Given that commercial activities are carried out within a commercial organization based on continuity, based on the combined use of labor and capital, and activities in the sharing economy are evaluated within this framework, it is clear that if the activity includes a "continuity" component for the service providers, it will be considered as commercial gain.However, there is no explicit regulation as to how long a period of time for which activity is to be considered as the time period of continuity. This situation makes it difficult to determine what gain component will be affected by the activity.

When the provisions of the income tax related to income from immovable property are evaluated in the context of sharing economy; "for the benefit of the economic assets left for use by others", the income tax law under Article 70 can be accepted as income from immovable property.

In the event that the activities are evaluated within the scope of commercial earnings, VAT will be born as delivery / service will be deemed realized. However, delivery and services shall not be subject to VAT in case of incidental commercial activity.

On value added tax against the state of the platform that mediates the sharing economy in Turkey, Law No. 7061, an arrangement was made within the framework of law VAT added to the stipulation of Article 9. The provision in question as follows; "*In so far residence in Turkey, the workplace, the legal center and business center value-added tax on real people who are not payers of value added tax by not regarding the services offered electronically paid shall be declared by those who offer this service. Ministry of Finance is authorized to determine the scope and principles and procedures of the services provided by electronically*".

Pursuant to the aforementioned communiqué, service providers declare the Value Added Tax related to these transactions electronically with the VAT declaration no. 3. However, before this declaration, the form prepared by the tax administration shall be filled out electronically and accordingly a special VAT liability shall be provided to the Electronic Service Providers on behalf of the service provider in the Big Taxpayers Tax Office(Kara,2018). Considering the regulations made in terms of VAT with both the law and the communiqué, it is understood that legislation applications may face problems in the face of digital economy.

Namely; these institutions shall issue a VAT Declaration No. 3 within the framework of the said regulations, in the event they regulate commission invoices for the transactions they mediate. First of all, invoice arrangements will not be possible for service providers that do not have VAT liability. In addition, considering the fact that the platforms which are in the limited taxpayer category and which mediate the services have calculated the commission price on the basis of the transactions they mediate, the price in the commission invoice for the intermediary will be at the discretion of the platform since there is no invoice in accordance with the legislation.

Therefore, although the target capture system to digitalize said, this economic model cooperation arising from the taxable value through processing platform that can point to is of

critical importance for Turkey. Because the provision and the applicability of the VAT declaration and the provisions added in Article 9 of the VAT Law depend on this cooperation to a large extent.

7. Conclusion

The sharing economy, which is a relatively new phenomenon, has recently become widespread in some areas of activity such as ride-sharing or short-term rentals.Although it is now a well-known term - from sharing to peer-to-peer economy, it refers to cheap access to information on a very large scale through a digital platform that meets supply and demands beyond the central feature to which potential consumers and providers are connected. The platforms that play an important role in the development of this economy make it possible for non-professional service providers to offer goods and services in a wide variety of areas, to generate value and to develop more development potential.

The sharing economy covering these situations is a rapidly developing phenomenon. However, the names used to describe this phenomenon, in particular, blur the lines with the use of the new three concepts: traditional consumer, business and 'user-provider-platforms' that do not match the agent concepts.Moreover, the regulatory frameworks on which the legal provisions to be used for their implementation are based do not contain clarity.Three-sided transactions cover a wide range of applications, from non-monetary sharing to real person businesses, and in particular from business to consumer (B2C) business models. In this context, this new digital economic model raises the need to make some market arrangements, including taxation.

In order to determine the tax requirements that arise in this new digital economic model, an approach that is appropriate to each event and a tax-based approach should be adopted, not an approach that fits all, in order to clarify the situation of the parties involved in the sharing economy transactions and to ensure efficiency in taxation.

Based on the existing examples of national and local regulatory approaches adopted so far, it may be possible to create alternative and operative solutions that are specific to some areas in which the sharing economy is developed and which address the defined side effects.Collaborating with platforms to ensure tax compliance of participants is one of these alternatives. Platforms may play a role in co-operation with tax authorities to exchange information on tax obligations. They can help with the tax statement process and may even take on the role of collecting some taxes (such as local taxes on tourism) by simplifying the collection of tax authorities.

It is the first step to clarify the definitions to address the tax challenges of the sharing economy, to comprehend the rapidly developing, multifaceted reality and to understand exactly what the sharing economy means. Arrangements made for the electronic service providers for Turkey in the understanding of the economic value created by this new digital models includes some difficulties in practice. It may be possible to overcome these difficulties in cooperation with platforms by taking into account the implementation examples in EU countries.

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EFFECTIVENESS OF TURKEY'S PUBLIC POLICIES SUPPORTING TECHNOLOGICAL INNOVATION AND PRODUCTIVITY INCREASE AT THE AGE OF KNOWLEDGE ECONOMY

Abdurrahman TARAKTAŞ [1]

Abstract

There is consensus in Turkey that knowledge economy and technological innovation are the driving force of economic growth. However, there are deficiencies in the development of holistic and result-oriented technology management and supportive public policies. Turkey has difficulty in achieving organizational change required by the knowledge economy since the beginning of the 21st century, with falling competitiveness, workforce skill levels and technological infrastructure can not be developed at the level that would support productivity growth and technological innovation. Turkey with having a young population, productive universities, flexible and enterprising private sector and being close to markets, to realize its potential, technology should become one of the main elements of public policy and a technological innovation culture should be developed under the leadership of the public sector. In this study, it is tried to reveal the outlines of the change in technological innovation and productivity increase. In this context, traditional production structures and the reasons for failure of technology policies are examined and the increasing and changing role of public sector is emphasized. In the second part of the study, to examine Turkey's technological innovation and to make comparisons; The Global Competitiveness Index developed by the World Economic Forum, the Global Innovation Index developed by the World Intellectual Property Organization and the Basic Science and Technology Indicators published by the OECD are being used. At the conclusion of the study, R&D and innovation support policies of the public sector in Turkey is evaluated in the light of new international practices. It also includes policy and solution proposals that strengthen the links between scientific research and commercial entrepreneurship, including reforms and investments that improve technological production infrastructure and human resources.

Keywords: Knowledge Economy, Technological Innovation, Productivity Increase, Public Policies
JEL Code: O32, O38, H39

1. Introduction

With the beginning of the 21st century, information technologies have shown a rapid development that has profoundly changed human lifestyles and economic structures. The "Digital Revolution" triggered a rapid paradigm shift in traditional industrial production processes and management models, in parallel with the transformation of traditional trading methods and monetary regimes. Biochemistry, aerospace, material science and nanotechnology fields supported by laboratories have come to the forefront. Technological innovations and knowledge economy have changed the rules of international trade competition. Previously, firms that considered growth as a solution to achieve economies of scale and cost reduction focused on R&D and innovation with the transition to knowledge economy. The search for cheap labor has been replaced by the search for highly skilled workforce that can adapt to technological innovations. Especially, the commercial life of

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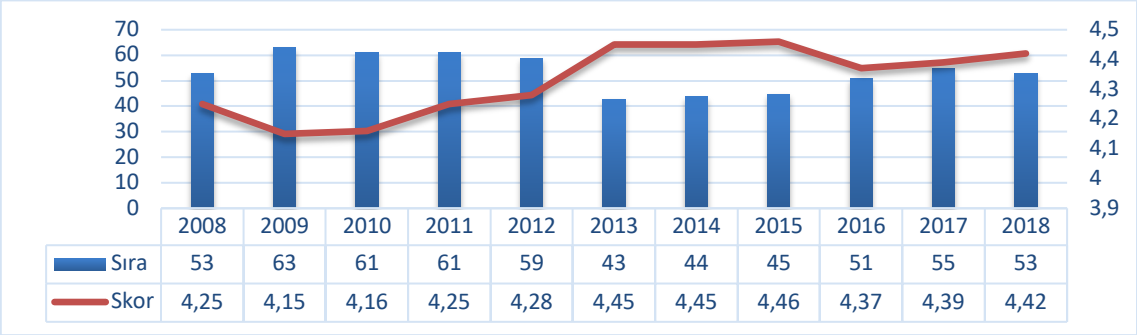
technological products is shortened and the producers have entered a continuous R&D and innovation cycle in line with the increasing demands of the customers. With the information economy, the physical boundaries have become transparent, the design, production, renewal and marketing of the products have become cost-effective in many different places. Companies competing with each other, have cooperated on specific issues at the same time. The innovation capacity has progressed rapidly to be a key determinant of rapid economic growth and the ability to compete and develop in the 21st century global economy. Providing the infrastructure required by the knowledge economy and accelerating technological innovation by supporting it has become one of the important tasks of the state. The objectives of establishing intellectual property rights and increasing the competitiveness of the country have gained importance.

2. Evaluation of Turkey's Global Competitiveness and Innovation Performance

The concept of global competitiveness has found widespread use of space in nowadays. The World Economic Forum (WEF) defines the competitiveness as the level of efficiency that encompasses all of the institutions, policies and production factors that will ensure sustainable growth in a country. According to the OECD, competitiveness is the ability to produce goods and services that can withstand foreign competition in parallel with the increase in real national income of a country under free market conditions (Reinert, 1994:3). As the level of global competition in the world increases day by day, the basis of competition has shifted towards the production of knowledge (Ovalı, 2014:18).

The Global Competitiveness Report began in 1979 as a research project. At the end of the forty-year period, it has become evaluating the key factors of economic development in over 140 countries. Since 2005, the Global Competitiveness Index (GCI) has been calculated to quantify the level of competition of countries (WEF, 2018: vii). As can be seen in Graph 1, according to the results of the GCI 2018, Turkey ranks 53 among 137 countries. The best ranking was in 2013. Even though its score remained the same, the ranking declined by 10 rows in 5 years.

Graph 1. Turkey's 2008-2018 Global Competitiveness Ranking



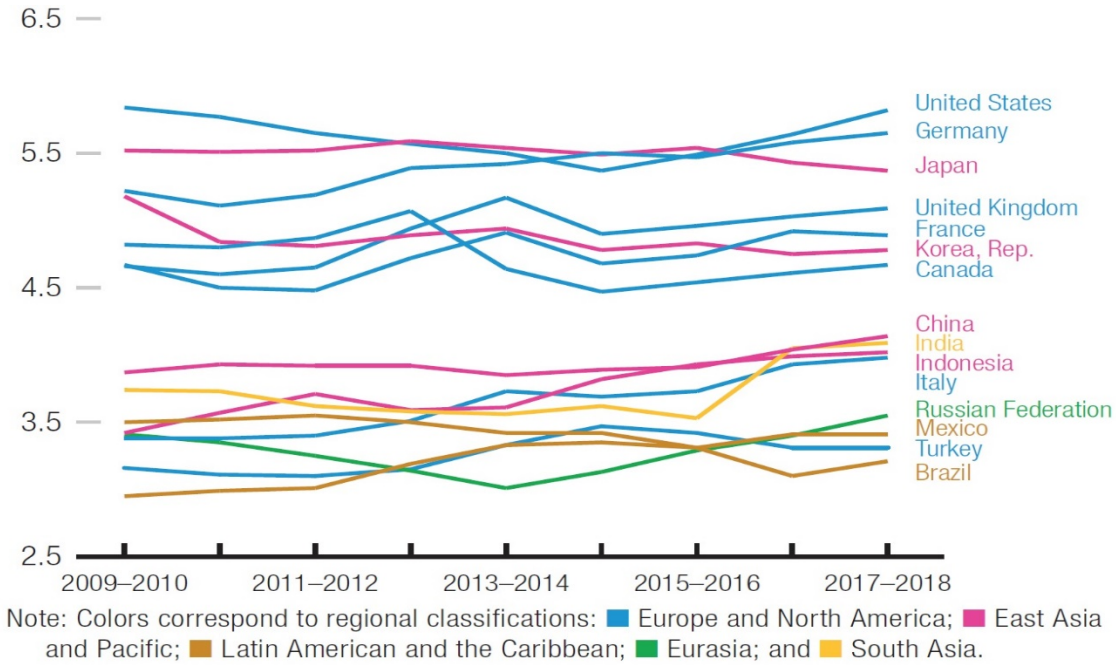
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sıra	53	63	61	61	59	43	44	45	51	55	53
Skor	4,25	4,15	4,16	4,25	4,28	4,45	4,45	4,46	4,37	4,39	4,42

Source: World Economic Forum, 2018.

Graph 2 shows that in the last decade, some important developing countries have come closer to the technology boundaries; however, it is also understood that the leading developed countries, which continue to benefit from historically strong innovation ecosystems, still make a clear difference. In terms of the evolution of the innovation environment, Japan and S. Korea still in the top group, seem to have lost momentum in recent years. At the beginning of the 2000's Brazil and Turkey which were seen as having great potential in the developing markets,

lost most of the momentum they gained before 2013. However, China, India and Indonesia continue to develop and close the gap with the upper class.

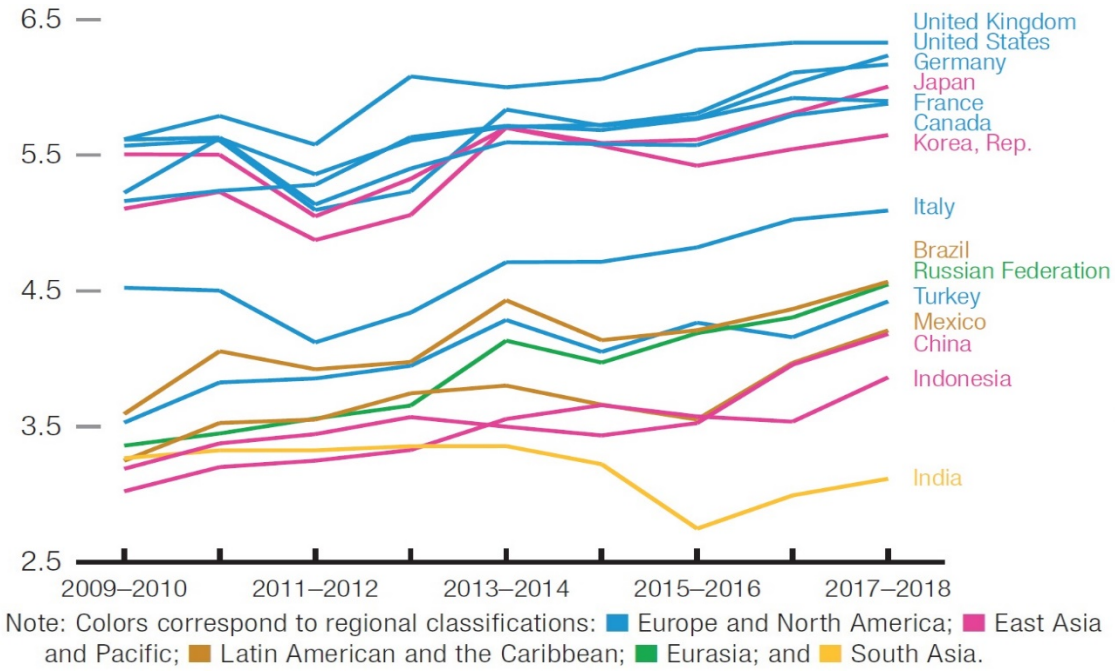
Graph 2. Evolution of innovation environment in large advanced economies and large emerging economies



Source: World Economic Forum, 2018: 16

In the last decade, as a result of the change in nature, innovation has been increasingly driven by the dispersed intelligence of a global community rather than individuals working within the boundaries of the company or university labs. Since many of the benefits of digital services; including using search engines, emails, digital maps, and social media, do not have a market price, they cannot be captured in GDP or reflected in efficiency estimates. However, it also provides an important benefit to individuals. The GCI's technological readiness component seeks to capture this capability through indicators related to the availability of the latest technologies. Graph 3 shows that the technological readiness of individuals and firms in China, India and Indonesia remains relatively low, and the benefits of innovation activities are not widely shared. Turkey, meanwhile, demonstrates a complementary effort to enable more people and firms to have the means to access and use new technologies.

Graph 3. Evolution of technological readiness in large advanced economies and large emerging economies



Source: World Economic Forum, 2018: 16

GCI evaluates countries in short and long term in terms of institutional and political aspects. In calculating the index, three main factors are used, consisting of 12 components and complementary data. The first basic factor is the "Basic Requirements" and the data of the Institutions, Infrastructure, Macroeconomic Environment, Health and Basic Education are brought together. The second is "Productivity Improving" Factors and is calculated as a combination of Higher Education and Vocational Training, Efficiency of the Goods Market, Efficiency of Labor Market, Financial Market Development, Technological Preparation and Size of Market. The last factor is the "Innovation and Competency" Factors covering the Competence Level and Innovation data of the Business World.

In Table 1, Turkey's place in the GCI ranking in 2018, and the change of ranking between 2018-2012 information is provided in terms of some selected components and indicators related to innovation. Negative values in column Change (2018-2012) shows worsening of the component, positive values indicate improvement.

Accordingly, the component with the highest recovery was higher education and on-the-job training (component 5). However, according to this level of education quality (99th place) and on-the-job training indicator (100th place), the country ranking is very poor and the ranking has deteriorated in the last 5 years. According to the technological preparation (component 9), the 2018 country ranking is below the overall ranking but is acceptable (62th place). According to the innovation (component 12), the 2018 country ranking is 69. The key indicators in this component that worsen the rankings are the government's performance in supplying high-tech products and the capacity of companies in the country to innovate. In 2018, the country ranking of these two indicators was lower than the overall ranking of the country (64. and 74., respectively). Another indicator that has the lowest ranking is the quality of the scientific research institutions. In 2018, Turkey ranks 100th according to this indicator.

Engineer and scientist presence and patent application indicators are indicators that increase the ranking of this component. According to the first indicator, the country ranking is 49 while it is 39 according to the second indicator.

Table 1. Ranking and Development of Some Selected Components and Indicators of Global Competitiveness Index

Index Component	Rank /137 (2017-2018)	Change (2018-2012)	Index Component	Rank /137 (2017-2018)	Change (2018-2012)
Global Competitiveness Index	53	6	C: Innovation and sophistication factors	66	-16
5. Higher education and training	48	26	11. Business sophistication	67	-20
5.01 Secondary education enroll. rate	37	56	11.01 Local supplier quantity	44	-9
5.02 Tertiary education enrollment rate	2	54	11.02 Local supplier quality	52	4
5.03 Quality of the education system	101	-19	11.03 State of cluster development	59	-16
5.04 Quality of math and science educ.	104	-4	11.04 Nature of competitive advantage	106	-20
5.05 Quality of management schools	108	-11	11.05 Value chain breadth	67	-32
5.06 Internet access in schools	72	-4	11.06 Control of i.national distribution	55	-31
5.07 Loc. avail. of specialized train. serv.	93	-16	11.07 Production process sophistication	51	-13
5.08 Extent of staff training	102	-37	11.08 Extent of marketing	92	-57
9. Technological readiness	62	-9	11.09 Willingness to delegate authority	86	11
9.01 Availability of latest technologies	57	-12	12. Innovation	69	-14
9.02 Firm-level technology absorption	46	-7	12.01 Capacity for innovation	74	-26
9.03 FDI and technology transfer	61	4	12.02 Quality of sci. research inst.	100	-12
9.04 Internet users	70	-1	12.03 Company spending on R&D	69	-13
9.05 Fixed-broadb. Int. subscriptions	59	-2	12.04 Univ-industry collab. in R&D	66	4
9.06 Internet bandwidth	61	-20	12.05 Gov't proc. of adv. tech. products	64	-32
9.07 Mobile-broadband subscriptions	60	13	12.06 Avail. of scientists and engineers.	49	-8
10. Market size	14	1	12.07 PCT patents	39	3

Source: Constructed by author from (World Economic Forum, 2018) data.

The Global Innovation Index, a United Nations agency developed by the World Intellectual Property Organization (WIPO), has been published for eleven years as of 2018. The essence of

its report consists of a ranking of the innovation capabilities and results of world economies. Turkey ranks 50th in according to data from Global Innovation Index 2018, in Table 2, it is also seen that it is the best 8th country in the top-middle income group. Another indicator that demonstrates the innovation potential of Turkey is demonstration of the success of being the 5th best economy based on innovation output sub-index, and 4th in terms of efficiency of innovations.

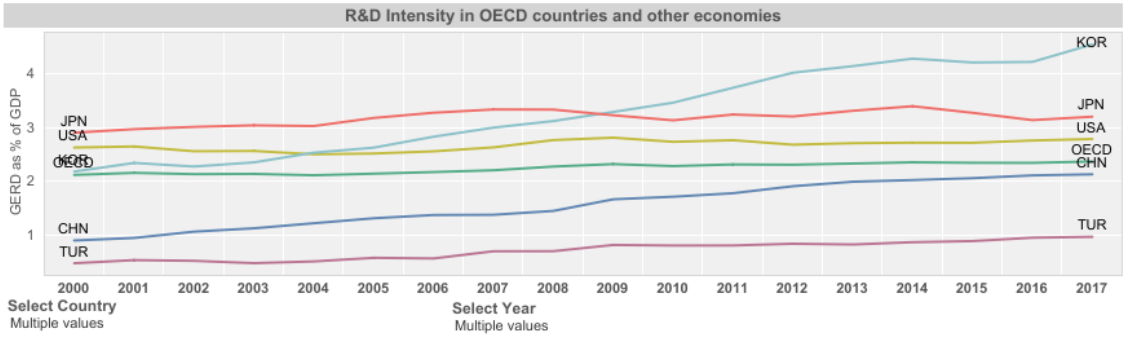
Table 2. Top Ten Economies by Income Group (Upper-middle income group- 34 units)

	GLOBAL INNOVATION INDEX		INNOVATION INPUT SUB-INDEX		INNOVATION OUTPUT SUB-INDEX		INNOVATION EFFICIENCY RATIO	
1	CHINA	17	CHINA	27	CHINA	10	CHINA	3
2	MALAYSIA	35	MALAYSIA	34	BULGARIA	34	IRAN	11
3	BULGARIA	37	CROATIA	42	MALAYSIA	39	BULGARIA	19
4	CROATIA	41	RUSSIAN FED.	43	CROATIA	42	TURKEY	25
5	THAILAND	44	BULGARIA	44	TURKEY	43	THAILAND	33
6	RUSSIAN FED.	46	S. AFRİCA	48	THAILAND	45	CROATIA	37
7	ROMANIA	49	ROMANIA	49	IRAN	46	COSTA RICA	43
8	TURKEY	50	COLOMBIA	50	ROMANIA	48	ROMANIA	47
9	MONTENEGRO	52	MONTENEGRO	51	COSTA RICA	51	MALAYSIA	48
10	COSTA RICA	54	THAILAND	52	MONTENEGRO	55	MONTENEGRO	56

Source: World Intellectual Property Organization, 2018:29

Turkey's R&D spending share in the GDP of 2016, according to the Basic Science and Technology Database published by the OECD, was realized as 0.945%. Graph 4 shows that this ratio is well below the OECD average. China has begun to approach the OECD average with its moves.

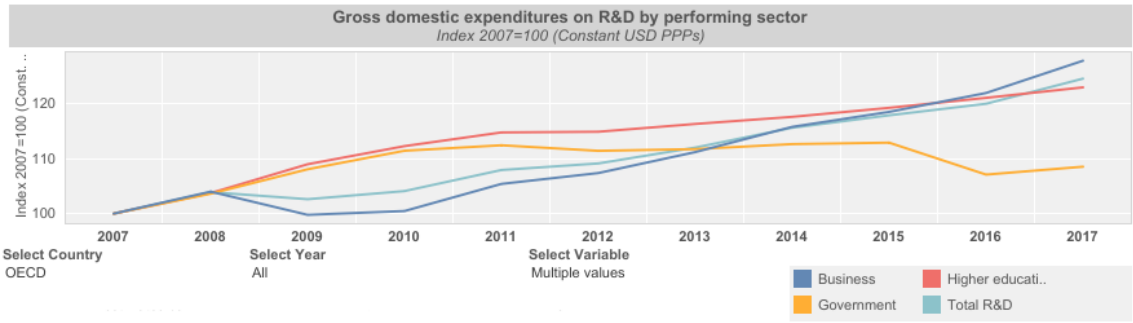
Graph 4. R&D Expenditure Intensity in OECD and Some Other Economies



Source: OECD estimates based on, OECD, Main Science and Technology Indicators Database, February 2019

It is seen at Graph 5 that the burden of R&D expenditures has been undertaken by private sector and universities in recent years. According to the Global Competitiveness Index data, it is understood that cooperation between the private sector and universities in Turkey has made progress. The decrease in R&D expenditures of the public sector stems from the fact that the budget fiscal balance deteriorates and the state has preferred R&D supports such as tax incentives.

Graph 5. Gross Domestic Expenditure on R & D in Turkey by Sectors (USD Ind.= 2007)



Source: OECD estimates based on, OECD, Main Science and Technology Indicators Database, February 2019

3. Conclusion

In the public sector pillar of Turkey's Innovation Ecosystem, numerous public institutions (Ministries, including the Ministry of Industry and Technology, TÜBİTAK, TÜBA, KOSGEB, YÖK, SANTEZ, Universities, Local Governments, EU Funds) and a very complicated legislation (Law No: 5746 on Supporting Research and Development Activities, Technology Development Zones Law No. 4691, Development Agencies Law No. 5449, Laws of Taxation, Commercial Laws and Law on Court of Accounts) are located. It is seen that the High Council of Science Technology, which was established in order to provide coordination, could not solve the complexity. The aggravation of bureaucracy creates a deterrent effect when new innovation initiatives are too weak and delicate like in Turkey. Business should be facilitated and the bureaucracy should be minimized.

The public bureaucracy is reluctant to undertake risk in supporting the R&D expenditures of private sectors due to the uncertainty of the results of innovation studies and the prolongation of their returns. Supported projects need to meet very difficult requirements and many R&D activities of the private sector, especially the software sector, cannot be supported. The fact that the innovation studies, which are often undetectable and which are defined as global public goods, are not supported by the public, cause social damage. In addition, the studies that measure and report the effects of the support given should increase.

Nowadays, it is seen that domestic technologies are preferred in public procurement in many countries. However, in Turkey, import purchases are realized more intense. Selection of domestic technology in public procurement will be an important innovation support. Public funding and tax exemptions should also be expanded for the R&D expenditures. It is extremely important to start a technological innovation move and mobilization in Turkey, for the speed-winning and shape-shifting global competition in the age of knowledge economy without wasting time to be successful.

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SUBSIDIES TO PRIVATE THEATERS

Sacit Hadi AKDEDE[1]

Abstract

Subsidies to private theatres are one of the main cultural policy problems of many countries. Increasing the number of audience is an important priority of many countries' cultural policies. Private theatreas like public theatres are important cultural entities to increase the number of audience in many countries. The main goals of public theatres can be also met by private theatres if the governmet subsidies them. In addition, private theatres can serve very well to the cultural diversity of countries. State theatre, in politically polarized countries like Turkey, can not provide cultural diversity since they can not produce political plays. If government draws a good defined cultural subsidy program, it can provide fiscal aid to any theatre that meets the requirements of subdity program. Market structure of private theatres all over the world is close to perfect competion. It is not monopoly, but monopolistic comptetition. If the number of private theatres is increasing, it does not mean that the market becomes competely capitalistic. Theatre sector is not like cinema, TV, or media sector. There are more private theatres than public theatres in more developed countries and most of them get government subsidy from central and local governments.

Keywords: Theatres, government subsidy, economics of art and culture, private theatres.

JEL Code: Z01, Z11.

1. Introduction

The Turkish State Theaters (TST) produced plays with budgets far above the aid provided to private theaters. TST had the halls and scenes where they could rehearse and produce plays, hang promotional posters on many boards of the city, easily promoted and sold tickets at prices that would create unfair competition. Sometimes the number of guests without a ticket exceeds the number of sold tickets (with a ticket). Most of the private theaters had not had a theatre hall to rehearse their plays, most of them did not even have a small space (a small hall or a reasonable size room) to rehearse. As they did not have a fixed hall to rehearse and perform, they could not sustain or provide continuity, therefore could not create their own audience. In this case it seems to be that state led to a crowding-out effect. Generally, public infrastructure investments can create crowding-in effect since it reduces the fixed costs of private investment, while more crowding-out situations have emerged here because the state has not built new theaters and did not let the private theatres use existing state theatre buildings. However, private theaters can use the state's theater buildings for both rehearsals and shows on certain days of the week. Of course, in this case, a new repertoire choice and the issue of the change of production policy regime will arise. Some theater halls are not suitable and can not be used in heavy decors. This new situation can force TST to produce plays with light décor, and other technical constraints. In this case, competition will also

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emerge. Otherwise, TST seems to be superior in average spectator's eye and it has been unfairly competitive according to private theaters with its heavily decorated or glamorous scenery. This privileged position, which is provided to TST in terms of hall use, promotion and advertisement due to the lack of theater people in the first years of TST, is now subject to change. As in many other fields, the state must first complete infrastructure investments (hall, stage, etc.) in the field of culture and art. They should establish mechanisms to encourage the emergence of private theaters, and form the support structure for them. However, the fact that the state produces theater by employing civil servants (memur) actors and directors brings various economic, political, and social problems.

2. Financial Aid to Theatres

Baumol and Bowen (1965, 1966) develop the concept of cost disease for theoretical support for government subsidies to performing art companies in the USA.Loyland and Ringstad (2007) investigates benefits and costs of government subsidies to theatres in Norway, whereas Zieba (2009) studies the income and price elasticities of German public theatres.

Below, the total amount of the financial assistance provided by the General Directorate of Fine Arts in the Ministry of Culture of Turkey, in other words, the financial assistance provided to all the types of theater (professional private theaters, professional children's theaters, amateur theaters, traditional theaters) outside the municipal theatres will be given. Then there will only be figures and explanations for assistance to professional private theaters.

Table 1. State Aid and Some Other Related Statistics

Years	All private theatre types State Aid (TL)	Subsidized number of plays	Average Amount of Aid (TL)	Aid per TST Budget	Number of TST Productions	Subsidized Number of Productions / Number of TSTproductions
2008	1500000	76	19736.84	0.015	115	0.661
2009	2500000	111	22522.52	0.022	125	0.888
2010	3000000	152	19736.84	0.024	146	1.041
2011	3500000	138	25362.32	0.024	135	1.022
2012	3445000	162	21265.43	0.022	152	1.066
2013	4000000	178	22471.91	0.022	143	1.245
2014	4312000	221	19511.31	0.023	151	1.464
2015	4265000	227	18788.55	0.021	151	1.503
2016	4590000	235	19531.91	0.020	139	1.691
2017	5000000	216	23148.15	0.020	148	1.459

Source: Author's own calculations

As can be seen from the table, the amount of subsidy to all the theaters except for the accredited government theaters was about two percent of the TST spending budget. The average amount of subsidy is around 20 thousand TL. There was no significant increase in the average amount of subsidy from 2008 to 2017. Considering the inflation rate over the years, it should be said that the amount of real support may not be increased or decreased. The number of plays supported seems to be increased over the years. The ratio of the number of supported plays to the number of TST plays has increased steadily over the years. This should be a gratifying situation. New theater groups are emerging. Unfortunately, we cannot see how stable the new theater groups are. While the ratio of the number of private theater plays supported by the state to the number of TST plays increases continuously, the ratio of the aid given to the private theater plays to the TST budget remains the same, indicating that the amount of aid per play has not increased much, and even some years may have decreased. This situation can be seen from the table above. We have already emphasized that the above table includes amateur and traditional theaters. Amateur theaters are very important in terms of spreading the theater, introducing both the art of theater and the active participation of the public in the places where the professional theater does not reach. This should be supported since amateur theaters benefiting from the support are very successful in maintaining the art of theater in their cities.

3. Data and Statistical Analysis

After examining the data on all types of the theater, it is useful to examine professional private theaters. These theaters are professional private theaters in the Western sense besides the accredited theaters (TST and city theaters). It should be noted that these theaters, TSTs and city theaters can be free to play and say the games they cannot play or the words they will not say for various reasons (political reasons rather than economic). This will increase cultural diversity. In addition, the censorship mechanism or the mechanism of auto-censorship in the event of the difference between the private theaters and state theaters can be eliminated. First of all, we will evaluate the professional private theaters statistically by means of various data.

Table 2. Descriptive Statistics about Private Theatres

	Season	Nominal Aid (TL)	Reel Aid (TL)	National Play Ratio	Total Cast	Single Ticket Price (TL)	Discounted Ticket Price	Male Author Ratio	Istanbul Groups
Mean	2016-17	24.43	22.01	0.75	7.48	37.23	28.51	0.84	0.74
Max.	2016-17	72.00	64.86	1.00	110.00	67.50	50.00	1.00	1.00
Min.	2016-17	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
Std. Dev.	0	20.66	18.62	0.43	11.19	18.83	13.45	0.37	0.44
Obs.	145	145.00	145.00	145.00	101.00	81.00	73.00	143.00	145.00
Mean	2015-16	25.09	23.12	0.75	6.20	34.28	27.06	0.83	0.72
Max.	2015-16	68.00	62.67	1.00	22.00	67.00	56.00	1.00	1.00
Min.	2015-16	0.00	0.00	0.00	1.00	5.00	5.00	0.00	0.00

Std. Dev.	0	18.81	17.33	0.43	4.24	14.56	11.56	0.38	0.45
Obs.	123	123.00	123.00	122.00	86.00	58.00	58.00	123.00	123.00
Mean	2014-15	23.00	21.12	0.73	7.58	33.59	23.69	0.83	0.69
Max.	2014-15	59.00	54.18	1.00	43.00	134.00	52.00	1.00	1.00
Min.	2014-15	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
Std. Dev.	0	17.75	16.30	0.45	5.96	21.53	13.37	0.38	0.46
Obs.	118	118.00	118.00	117.00	83.00	58.00	53.00	115.00	118.00
Mean	2013-14	23.50	21.74	0.75	6.47	37.22	26.83	0.91	0.76
Max.	2013-14	76.00	70.31	1.00	20.00	220.00	57.50	1.00	1.00
Min.	2013-14	0.00	0.00	0.00	1.00	5.00	3.00	0.00	0.00
Std. Dev.	0	21.79	20.16	0.44	4.67	28.43	11.49	0.28	0.43
Obs.	106	106.00	106.00	106.00	81.00	60.00	50.00	104.00	106.00
Mean	2012-13	28.96	28.96	0.65	7.36	36.52	26.80	0.87	0.71
Max.	2012-13	87.00	87.00	1.00	19.00	67.50	56.00	1.00	1.00
Min.	2012-13	0.00	0.00	0.00	1.00	6.00	4.00	0.00	0.00
Std. Dev.	0	27.02	27.02	0.48	4.26	12.67	10.00	0.34	0.45
Obs.	98	98.00	98.00	97.00	76.00	59.00	53.00	97.00	98.00

Source: Author's own calculations

Table 2 above shows some descritive statistics about data, from the 2012-2013 season until 2016-2017 season, given by the Ministry of Culture and Tourism, General Directorate of Fine Arts. After giving brief information about descriptive statistics shown in Table 2 above, we will give the results of a simple regression analysis to understand how some of the factors (variables) we believe may affect the amount of aid.

In the five-year period above, the number of the theaters applying for aid in the 2012-2013 season was 98; there is no information on whether these groups have their own theater halls. In the data obtained from the General Directorate of Fine Arts, there is information about the name of the theater group, the amount of aid it receives, the province where the theater group (company) is located and the name of the play it has applied to get help. Based on these data, we have compiled the information for our regression analysis. The fact that some theater groups own their own theater building or hall does not mean that the theater group owns the property of the building. A few private theaters in Turkey have their theatre halls. Ankara Art Theater and Ankara Ekin Theatre in Ankara are important theater groups, which maintain their existence in the relevant period, produce their plays, not in their own property, but their rental spaces. Even if many important professional theater groups in Istanbul do not have a built-in scene, the ownership of the stage does not belong to the theater group. We will perform the regression analysis in the next section without such important information.

3.1. Regression Analysis

Table 3. Regression Table

Method:	OLS	
Dependent Variable: Amount of Real Valued Aid (TL)		
	Coefficient	t-value
Constant	609231.20***	2.29
National Plays	2573.18	0.89
Amount of aid last season	19537.76***	5.82
Istanbul groups	7065.59**	2.27
Cast	2061.91**	2.39
$Cast^2$	-81.00*	-1.87
Date of Establishment	-303.47**	-2.29
2016-2017 season	-5168.21	-1.28
2015-2016 season	-3557.89	-0.93
2014-2015 season	-8376.44**	-2.17
2013-2014 season	-6500.89	-1.39
Observation	184	
F-Value (Prob.)	6.76 (0.00)	
Adj-R^2	0.24	

***p<0.01, **p<0.05, * p<0.10 .

The season variables in the above regression table (2017, 2016, 2015 and 2014) are the dummy variables showing the real amounts of aid in the related years according to the reference year of 2013. The stars placed on the figures help us understand whether the variable makes a statistically significant difference. When we look at the season variables, except for 2015, when compared with 2013, the aid made in other years did not differ significantly in real terms. The coefficients are actually negative. In other words, the aid provided in other years has decreased, however this is not a statistically significant reduction. For 2015, this decrease is statistically significant. In other words, the aid made in 2015 is less in real terms than in 2013. Although there is more aid for domestic plays, this difference is not a statistically significant. In other words, the groups producing the plays of the native writers did not receivemore support because they produced national plays. Theatrical groups with higher number of actors have received more support. Besides, this variable shows a non-linear relationship; groups with too many actors received less support. Cast size of 12.62 (2061.91 / 162) actors (cast) was found to be the maximizing number of cast for highest subsidy, ceteris paribus. In other words, for example, a group of 10 actorsreceived more subsidy from another group of 9 players. On the other hand, agroup, which had 13 actors (cast), received less subsidy than a 12-actor group. The subsidy of a theater group in previous season, ceteris

paribus, made it easier to get help this year because the related variable (last year's subsidy) is statistically significant and positive. Therefore it is important to get first subsidy for the theaters because once again, the possibility of getting subsidy again in the following season increases.

The Istanbul theaters received more subsidy than the other theater groups. This should not be surprising because most of the theaters are located in Istanbul, as previously emphasized.

4. Conclusion

In this study, the market structure of private theaters and state subsidy to private theaters were examined. What is more important is that there should be assistance in finding audiences, especially in terms of facilitating the entry of the newly established theaters into the sector. In this regard, it is very important that TST owns several stages and halls are ready for the performances of private theaters especially on Mondays. In addition, the separation of public spots into the promotion of private theater plays is important to increase the demand. The construction of at least 100 square meters of rehearsal spaces will also help to develop private theaters so that banners can be printed and the old decors of TST should be available for private theatres usage, and the private theaters can store and rehearse the decors. The cost of these rehearsal spaces to the state will not be very high. Similarly to the construction of the film plateaus, rehearsal spaces can be built in one area of the city. these rehearsal venues should be used by not only theater groups but also music and other performing arts (dance) groups.

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THE POLITICAL ECONOMY OF NATURAL DISASTER PREVENTION AND MITIGATION

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Abstract

Societies do not take adequate action to transfer risk or to prevent/mitigate potential damage caused by natural disasters. Essentially, the public sector must intervene in market failures stemming from such problems as imperfect and/or asymmetric information, myopia, and collective inertia. Although more efficient allocation of social resources reduce the fiscal burden of natural disasters on public finance and increase social welfare, the public sector also fails in this regard. Specifically, certain political motivations prevent effective natural disaster risk management, one example being that politicians, due to the problem of time inconsistency in public finances, attach greater importance to policies that will bolster short-term electoral support. Politicians consequently fail to enact sufficient regulations and make the necessary investments with regard to natural disaster prevention if the safeguard's benefits manifest in the long term while placing burdens on constituents in the short. As such, they prefer distributing disaster aid as doing so garners election support. Solving the problems stemming from political motivations is only possible by establishing institutional mechanisms that increase democratic accountability and raise public awareness of the risks of natural disasters.

Keywords: Natural disaster risks, Asymmetric information, Myopia, Collective inertia, Market failures, Public failures

JEL Code: H53, H84, D78

1. Introduction

Dealing with natural disasters is one of the responsibilities of the public sector. In the event of a natural disaster, while the state works to fulfill its explicit responsibilities like rebuilding damaged and destroyed infrastructure, pressure exerted by the public forces it to fulfill more implicit responsibilities like compensating for economic losses resulting from the natural disaster. The responsibilities necessarily undertaken by the public sector cause added stress to the budget, sometimes to the point of causing the state to succumb to economic crisis. Even if there no change is made to the public budget, resources are forced to be redistributed, which, in the long term, causes policies to deviate from their ultimate objects like providing economic development and fair income distribution, on the one hand, and declines in social welfare, on the other.

Several factors, including the frequency and severity of natural disasters as well as the population density, degree of economic development, and income distributions in the areas where they occur all affect the total loss in life and property caused by disasters, which, in turn, significantly impacts the state's financial obligations. Additionally, in societies whose

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adaptive capacity to natural disasters is high, disasters do not always result in a social or economic calamity. The loss of life and property is less in societies that take actions to transfer risk and to prevent and/or mitigate the damage caused by natural disasters. However, a large number of theoretic/empirical studies following different approaches indicate the existence of market failures in this vein. Public actions are required in order to alleviate market failures. The public sector can intervene in problems leading to market failures (e.g. imperfect/asymmetric information, myopia, and collective inertia) and through public actions and by encouraging individual actions, can ensure that sufficient safeguards against natural disasters are put into place. Just as effective public interventions can minimize the financial burden incurred on the state by natural disasters, so too can they lead to an increase in welfare by enabling a more effective distribution of communal resources. This said, however, the public sector, despite its being responsible to intervene in market failures, also suffers from its own failures in this vein. Problems like limited financial resources, inadequate technological and institutional infrastructure, and corruption all constitute serious obstacles to effective safeguards' being implemented. There are, moreover policy motivations that deter the public sector from devising effective regulations for the implementation of safeguards against natural disasters. By examining the empirical and theoretical literature, the current study seeks to identify those market failures and public sector failures that lead to insufficient safeguards from being implemented in regard to the prevention, mitigation, and transfer of natural disaster risks. In the following (i.e., second) section, examples of the short, middle, and long-term economic and financial costs caused by natural disasters are given. In the third section, market failures leading to deficient safeguards' being implemented are discussed. In the fourth section, appropriate public sector interventions and obstacles impeding these safeguards from being implemented will be assessed. Finally, the fifth section concludes this study and offers a general assessment of the current status quo.

2. Economic and Financial Cost of Natural Disasters

Not only are natural disasters detrimental to human and physical capital, they have the potential to severally disturb social welfare in the short, middle, and long term. While the immediate consequences of natural disasters include mortality, morbidity, and the destruction of physical infrastructure, repercussions to the economy (e.g., income recipients, employment, sectoral production composition, inflation) will emerge in the long run. In 1991, The Economic Commission for Latin American and the Caribbean (ECLAC) developed a methodology distinguishing between the direct losses, indirect losses, and secondary effects of catastrophes. Direct losses are defined as all capital and stock losses on fixed assets, finished and semi-finished goods, raw materials, and spare parts incurred during or as a direct consequence of natural disasters. Indirect losses are Assoc.d with the effects of lost production and the inability to provide services as a result of disruptions occurring in the flow of goods following a catastrophe. Secondary effects, however, refer to disasters' effects on general economic performance (Marti, 1997).

There are several studies indicating that natural disasters do not significantly impact macro-economic dynamics and that they may even have positive effects on them. Albala-Bertrand (1993), for example, found that catastrophes may stimulate the construction sector. Using their *creative destruction* hypothesis as a springboard, Jha et. al. (2018) assert that from a development standpoint, disasters generate positive outcomes. That said, a large number of

empirical studies also support theoretic predictions that natural disasters do indeed have negative impacts on the economy in the short, middle, and long term as a result of their direct, indirect, and secondary effects. For example, Murlidharan & Shah (2001), Hochrainer-Stigler (2009), and Raddatz (2007) reached findings on how economic growth was negatively affected; Otero and Marti (1995) and Benson & Clay (2004) on how economic development was negatively affected; and Heger et. al. (2008) on how trade gaps were negatively affected.

Natural disasters also negatively affect public finance in the short, middle, and long term. When a natural disaster occurs, additional expenses to cover emergency needs emerge. Undoubtedly, one of the state's explicit responsibilities is to reconstruct damaged infrastructure. Yet, through political pressure, constituents and interest groups remind the state of its implicit responsibilities. While the public sector works to fulfill the demands of society, it incurs added expenses coupled with reduced income. Short-term fiscal deficits eventually lead to permanent fiscal imbalances in the long term. By affecting the government's ability to maintain and/or improve specific public activities, disruptions to fiscal stability only serve to harm the overall quality of public services (Noy & Nualsri, 2011; Benali, et. al., 2018; Akar, 2013; Hochrainer-Stigler, Keating et. al., 2018).

3. Reasons for Insufficient Natural Disaster Prevention and Mitigation: Market Failures

By making buildings resilient to disasters, developing early warning systems, using long-term weather prediction reports and crop modeling studies, and the public sector's making other similar investments to engineering solutions, potential damage caused by disasters may be significantly reduced. Risk may be transferred by using financing tools like different types of insurances. In addition to lack of income and inequality in income distribution, both market and behavioral failures cause the private sector to implement insufficient safeguards to disasters. There are a variety of approaches explaining why individuals make irrational investments against disaster risks. Several problems like imperfect and asymmetric information, myopia, collective action problems, and an understanding that such events are acts of God cause market and behavioral failures. Assuming that a rational decision has been made, the moral hazard problem may still cause insufficient safeguards from being implemented.

4. Reasons for Insufficient Natural Disaster Prevention and Mitigation: Public Sector Failures

Solutions for market failures require public actions. As a solution to the problem of collective action and information asymmetry, the state can devise and enforce stronger building standards, requiring them to be more resilient to natural disasters. The state can also take actions to deter or legally prohibit production activities and myopic residential development in high risk areas. The construction of dams, flood warning systems, fire extinguishment equipment, and other similar administrative actions can be instituted with public funds. Public awareness of dangers, risks, and prevention strategies can be increased. Where the construction of housing and industrial areas in regions at risk of natural disasters cannot be prevented, buildings and residential zones can be strengthened through the use of subventions and other types of incentives (Kenny, 2009; Carsell et. al., 2004; Neumayer et. al.,

2014; Pelling et. al., 2002; Dayton-Johnson, 2004: 31). Risk may be transferred by allocating funds for disasters, supporting private insurance markets, and developing public-private insurance. Likewise, lack of income, insufficient technical and institutional infrastructure, and certain policy factors may also cause similar public sector failures. For example, devising and enforcing regulations, like zoning and building codes, cannot be effectively implemented when income, technology, and infrastructure are inadequate or when corruption prevails. There may not be room in the budget for necessary public investments or natural disaster funds. In addition to these structural hurdles, there are also political incentives hindering politicians from devising, from a social cost-benefit standpoint, more effective policies against natural disasters. Because of the problem of time inconsistency in public finance, politicians attach more importance to policies that will aid them in being elected in the short term. Voters may not be able to bring themselves to support policy decisions that will cause them short-term difficulties despite their eventual long-term benefits. Not wanting to lose the support of constituents and interest groups, politicians may embrace post-disaster aid policies instead of policies seeking to prevent and/or mitigate the risk of natural disasters or to transfer risk. The empirical literature indicates that when it comes to making investments toward minimizing risks and preventing damage caused by disasters, politicians prefer engaging in disaster aid to implementing deterrent incentives (Gasper & Reeves, 2011; Healy & Malhotra, 2008; 2009; Garrett & Sobel, 2003).

5. Conclusion

Public resources spent following natural disasters may cause deviations in future actions made for prioritized goals like countries' economic growth, development, and income distribution, and in the event of insufficient funds, create financial risks. In order, therefore, to increase the public sector's social welfare and to avoid financial crises, interventions that prevent/mitigate and transfer risk need to be made. Investments seeking to change structural conditions can be made and disaster policies can be integrated into development policies as long-term solutions. In the short term, however, market failures can be solved through regulations and incentives. Although the state theoretically has several tools at its disposal, positive political-economic conditions cause policies in this vein from being developed. Solving problems stemming from political motivations is dependent on devising institutional mechanisms that increase democratic accountability increasing society's awareness of the risks of natural disasters. Considering how competition affects elections and policy decisions, constituents knowledgeable of the potential dangers of natural disasters and what preventive measures may be taken against them may motivate politicians to develop the most advantageous policies.

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INSTITUTIONAL STRUCTURE IN TAX AUDIT: A CASE STUDY OF TURKEY

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Abstract

Tax audits are carried out within the structure of Tax Audit Board since 2011 as a result of the merging of the former audit units under a single umbrella. Tax audits can directly or indirectly be affected by various factors. It is necessary to identify problems related to the corporate structure in tax audits and to develop the recommendations for solution. Therefore, the main purpose of the research is to identify the issues related to the institutional structure of the tax audits system in Turkey and to propose recommentations to eliminate these problems. In order to obtain in-depth information in this context, the research was carried out by qualitative research method. Qualitative research was designed as a case study. The data were collected through semi-structured interviews with 15 taxpayers, 11 accounting professionals and 17 tax inspectors. The analysis of the research data was carried out with the help of NVivo 11 Pro which is one of the computer aided qualitative data analysis program by induction analysis. The findings of the research were presented based on the research question and these findings were evaluated in the context of institutional structure in tax audit.

Keywords: Tax Audit, Qualitative Research, Interview
JEL Code: H20, M42

1. Introduction

It is highly essential that taxes, which are the most fundamental source of income for the states, be collected full and correctly. Tax audit is one of the basic instruments that will ensure that this is carried out peoperly. States need an effective, efficient and dissuasive tax audit system in order to control the underground economy, ensure authenticity of the declarations, increase tax compliance of taxpayers and collect more tax revenues.

Although some improvements have been made in the Turkish tax audit structure as a result of the reorganization activities carried out in 2011, the problems in tax audits have continued multiply instead of decreasing. Therefore, there is a need to obtain in-depth knowledge in order to develop the problems and root causes of the tax audits and the suggestions for the solution of these problems.

In this context, the main purpose of the study is to identify the problems related to the institutional structure of the tax audits system and offer solutions to solve these problems. This study was carried out by qualitative research method. As part of the study, qualitative research was conducted for tax inspectors, accounting professionals (sworn financial advisors and public accountants) and taxpayers.

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In the literature, quantitative research methods are used mainly in tax topics. There are many qualitative research studies in the fields of education, sociology, psychology, politics and public administration. In-depth information obtained as a result of the use of qualitative research methods on tax topic will be presented to the tax administration, tax payers, accounting professionals and scientists.

2. Methodology

This section provides information about the research method.

2.1. Research Model

Qualitative research is a research study in which a process for realizing events and situations in a realistic and holistic manner is used by using various qualitative data collection tools (Yıldırım & Şimşek, 2008: 39).

The qualitative research design guides the researcher through the entire research process. In the case study, the researcher focuses on a situation or situations to thoroughly understand and investigate the phenomenon (Stake 2008: 121). This research is designed as case study.

2.2. Research Environment and Participants

In qualitative research, purposive sampling methods are mainly used (Sönmez & Alacapınar, 2018: 174-177).

In this study, snowball (chained) sampling method was applied. The validity and reliability committee decided that the satisfaction level of the study was reached.

Participants consisted of 17 tax inspectors working in different supervisory groups in Ankara, 11 accounting professionals (6 public accountants and 5 certified public accountants) and 8 taxpayers in different sectors.

2.3. Data Collection Tools

In the case studies, the interview is a very powerful technique used to reveal participants' experiences, perceptions and perspectives in depth (Denzin & Lincoln, 2005: 10). Interviews may be unstructured and semi-structured (Creswell, 2009: 179, 182).

In the study, semi-structured interview data collection tools, mainly non-participatory observation, archive records and document review were utilized. During the data collection process, face-to-face and e-mail interviews were conducted with the participants. Information obtained before and after the interviews were transferred to the diaries.

2.4. Data Analysis

Content analysis was used in analyzing of the data. The content analysis process of the qualitative data is inductive in terms of shape. In content analysis, data is explored in depth and concepts and themes are explored. In this process, certain concepts and themes are brought together and interpreted in a way that readers can understand. Themes can be composed of several sub-levels according to the data analyzed. The themes and sub-themes

refer to a general phenomenon (Marshall & Rossman, 2006: 156-165; Gibbs, 2008: 38, 78; Glesne, 2015: 256-268-270; Mason, 1998: 111; Yin, 2009: 126).

Content analysis was performed using the Nvivo 11 pro qualitative data analysis computer program.

2.5. Validity and Reliability of Data

The credibility of the research results is one of the most important criteria of scientific research. Therefore, validity and reliability are the two most commonly used criteria in research. In qualitative research, triangulation is used in realization of validity and reliability (Ünlüer, 2010: 77; Gibbs, 2008: 94). In this context, the credibility (internal validity), generalizability (external validity), consistency (internal reliability) and verifiable (external reliability) of the research is attempted to be carried out (Marshall & Rossman, 2006: 201-203; Yıldırım & Şimşek, 2008: 255, 259, 274; Yıldırım, 2010: 84).

Within the scope of the research, data diversification was performed by using different data collection tools from various data sources. Various measures have been taken to ensure the validity and reliability of the data. Qualitative research was conducted at all stages of the study with the approval of the validity and reliability committee, thesis monitoring committee and BAP evaluation commission.

3. Findings

One of the main findings within the scope of this research, is the theme named “Institutional Structure in Tax Audit”. The findings in this theme will be shared.

3.1. Monopoly and Merger in Tax Investigations

In 2011, all the audit units were united under a single mechanism called “Tax Inspection Board (VDK)”. Neverthless, a complete integration amongst tax inspection staffs has not yet been achieved. Currently, there is stilla distinction between former central and provincial inspection staffs.

In response to the single mechanism and a single title within the VDK, a number of experienced central control staff has left the board. Effective inspection power was negatively affected. Former central control staff has lost their motivation within the VDK.

In this set up, tax inspection experience, institutional accumulation and effective investigation methodology could not be fully transferred to the VDK. In addition, the audit power of the provincial organization of the Revenue Administration (GİB) has been eliminated. There is currently a gap in the provincial tax audit.

After the establishment of VDK, qualified and effective tax inspections decreased and tax inspections were transformed into fabricated audits. Thus, the efficiency and deterrence of tax reviews are questioned.

Most tax inspectors do not have the sense of “professional belonging”. There are also some problems in the supervision of tax inspectors regarding their moral and professional capabilities. Thus, the VDK has become a huge institution that is difficult to manage.

3.2. Tax Inspectors Selection, Growth Process and Trainings

As a result of the recruitment of a large number of tax inspectors in a short time period, the quality of the inspectors could not be maintained. This has led to a weakening of the perception of “career profession”.

Due to the fact that the “fellowship system” cannot be maintained, the inspection culture, professional and ethical values cannot be fully transferred to the new inspectors. Tax inspectors who fail to have adequate profession may struggle with some problems in tax inspections.

While the “sense of professional belonging” of the former central auditors transforms the challenging qualification process into a struggle to achieve an award/goal, the “fear of being eliminated” can transform the qualification process into a “life and death war”.

After the establishment of VDK, the pressure to achieve performance and fear of elimination during the qualification process can cause the psychological problems. These situations affect the inspector's self-confidence, communication and social life negatively.

3.3. Evaluation of Performance of Tax Inspectors

The different application of the scoring criteria used in performance measurement according to the supervisory group presidencies disrupts the work ethics among the tax inspectors. Human factor can affect the the objectivity of performance appraisal and relative equality between tax inspectors.

Performance evaluation may be insufficient to measure the quality of tax inspections and sometimes it can cause pressure on inspectors to achieve their targets.

The performance measurement does not have any criteria for tax inspectors in the group presidencies except (A) Audit Group presidency. In the current performance practice, there is no award system that promotes the quality of tax inspectors .

3.4. Audit of Tax Inspectors

There are two aspects of auditing tax inspectors. these are the inspection of illegal activities and audited reports.

In VDK, the control and supervision of tax inspectors cannot be handled sufficiently. In fact this is not possible to accomplish in the present chaotic environment of the VDK. As long as the professional and ethical values cannot be given to the tax inspectors sufficiently and the inspectors cannot be followed, there is no mechanism to prevent any illegal acts.

Concerning the tax examination reports, which are deemed sufficient by the report evaluation committees, decisions in the judicial process may be opposite of evaluation committes. There is no questioning process related to the tax examination reports which have been decide in an opposite way by the court. .Furthermore, tax technique reports, which adversely affect the image of the tax administration, are not sufficiently controlled by RDKs.

4. Conclusion

The effectiveness and deterrence of tax audits have critical importance for those who may behave against legislation. In 2011, some improvements have been made as a result of the merger of tax audit units under the VDK. However, a complete integration between inspectors within the VDK has not been achieved.

After the establishment of VDK, tax audits have become "fabricated inspections". Many tax inspectors have no sense of "professional belonging". Due to the lack of functioning of the fellowship system, auditing culture, professional and ethical values cannot be transferred adequately to new inspectors.

Performance practice can cause pressure on inspectors to reach their targets. There is no award system that improves the quality of tax inspectors and reviews in performance.

Inspection and supervision of inspectors cannot be made sufficiently within the VDK. There is no evaluation mechanism for the audit reports within the scope of the files decided by the courts.

The quality of the inspections should be improved by eliminating the caveats in the selection and training processes of inspectors (especially in the fellowship system). In addition, effective and efficient tax audits should be started from the fabricated investigations. The sense of professional belonging of tax inspectors should be strengthened. In order to ensure integration among tax inspectors, the implementation of performance that disrupts work ethics should be revised. Feedback should be provided for the realization of the improvements in tax audit reports that have been transferred to the judicial process.

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THE RIGHT TO GOOD ADMINISTRATION IN TAX INSPECTION PROCESS

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Abstract

The right to good administration, which is one of the significant features in the scope of administration field of a contemporary rule of law, particularly requires certain qualities such as impartiality, transparency, proportionality, prohibition of discrimination, right to access information, right to be heard, right of defense, right to a fair trial within reasonable time and justification of decisions. The right to good administration constitutes the legal assurance of individuals who are relatively weak against the state which is equipped with the privileges of the public power. These assurances are also applied to tax law practices. The specific principles and requirements of the right to good administration should also be considered during the tax inspection process. This study herein assesses "tax inspection", which is a technical tax law institution, under the light of requirements of the right to good administration.

This study further includes the normative foundations of the right to good administration under international and national law and explains the assurance mechanism in the scope of this right along with the functions of such mechanisms. Subsequently, it discusses the process and institutional structure of the tax inspection which is one of the audit mechanisms for the taxpayer under Turkish tax law. Then, the legal and administrative regulations made in the relevant tax legislation with regards to the right to good administration are briefly examined. In this context, the individual application decision by the Constitutional Court which was published in March, 2018 (Application No: 2015/6728) was evaluated here as a remarkable example of how the existing regulations can be applied differently in similar concrete cases and how they can give rise to different results in terms of obligations during the tax audit processes.

Keywords: Tax inspection, right to good administration, taxpayer rights, rule of law.

JEL Code: H20, K34.

1. Introduction

The purpose of the tax inspection is to investigate, determine, and ensure the accuracy of the taxes to be paid. Since the Tax Procedure Law is an administrative procedure code in the field of taxation, it is obligatory for those who are authorized to conduct an inspection to do it within the framework of these rules (Saban, 2015: 454). The tax administration using the public power privilege should do the inspection in a way that is lawful and does not eliminate the rights of the taxpayer. Nowadays, it is accepted that if the principles of the right to good administration are taken into account, it is another indicator that the tax inspection, whose technical details are specified in the legislation, is conducted lawfully.

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During the 2015 Congress of the International Fiscal Association (IFA) on “The Practical Protection of Taxpayer’s Rights”, rights of taxpayers subject to tax inspections, which is one of the processes of the tax audit, has been discussed (Baker/Pistone, 2015:43). The fact that the tax administration, which has the superior public power, obtains ‘legal evidence' on the taxpayer who is subject to the tax inspection will have a direct effect on the lawfulness of the process. Especially the member states of the European Union and the governments, which take into account the requirements of contemporary rule of law, accept that rights and interests of the taxpayer must be protected by law and should not be overlooked while the factual and legal basis research on tax is being carried out.

2. Conceptual Determination: Right to Good Administration

Good administration refers to acting in accordance with the rules and procedures provided for a certain activity. Even though it varies depending on the field of activity, there are good administration principles such as impartiality, accuracy, and promptness that apply horizontally to all administrative activities (Karakul, 2015: 62).

The report of the Venice Commission on 9 March 2011on concepts "good governance" and "good administration" concludes that the concept of good governance is not included in the constitution of any state in Europe. The inclusion of "good governance" in judicial decisions is limited to a few exceptional examples whereas the "good administration" concept is more widely used on a national scale (Karakul, 2015: 82).

3. Normative Foundations

The regulations which embody the normative foundations of the right to good administration have been examined by a dual distinction. Firstly, the sources of good administration in international law, and then the regulations in our domestic legal system are discussed.

3.1. International Law

The first time when the right to good administration has been regulated on the international level is in the Charter of Fundamental Rights of the European Union. In the same vein, the Council which prepares the Charter has accepted the right to good administration as a general principle of the law when it is included in the Charter and it is based on the Community case law (Şimşek, 2007: 91). The Code of Good Administrative Behaviour and the Committee of Ministers of the Council of Europe Recommendation No. CM/Rec (2007/7) to the Member States contain several provisions on the right to good administration (Statskontoret, 2005/4: 13,14). Although the right to good administration in the European Convention on Human Rights is not clearly regulated, the rights and freedoms defined in the Convention appear as assurances of the understanding of the rule of law which is shaped by European legal culture (Kaboğlu, 2018: 289). Resolution (77) 31 on the Protection of the Individual in Relation to Acts of Administrative Authorities, embodies the need for “assistance and representation” along with certain requirements for an administrative act such as the right to be heard, access to information, justification of decisions and right to legal remedies. It has been pointed out the need to grant the individual, whose rights and freedoms have been affected adversely by an administrative act, the right to be assisted legally and the right to defend oneself through legal

representative Moreover, the regulations deemed as consequences of legal culture of the Council of Europe such as the European Social Charter, Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, European Charter of Local Self-Government and recommendations are among the legal regulations aimed to fulfill the requirements of the right to good administration.

3.2. National Law

Although there is no legal norm in which the right to good administration is clearly stated in our national law, there are various provisions of the Constitution, which guarantee the requirements in respect thereof. The principle of the rule of law in Article 2 of the Constitution, the principle of equality (art. 10), the nature of fundamental rights (art. 12), the protection of fundamental rights and freedoms (art. 40), the right of petition, the right to information and appeal to the Ombudsman (art. 74), judicial review (art. 125) include a couple of basic regulations concerning the right to good administration.

It must be noted that there is no General Administrative Procedure Act in Turkish law. The ongoing efforts on this issue since 1998 have not yielded any results. Instead, however, different laws have been adopted concerning the administrative procedure. For instance, Law No. 4982 on the Right to Information, which regulates the procedure and the basis of the exercise of this right in accordance with the principles of equality, impartiality, and openness which are considered as requirements for a democratic and transparent government. Law No. 6698 On the Protection of Personal Data and Law No. 6328 on the Ombudsman contains regulations on this issue in question. Articles 1 and 5 of the Law on the Ombudsman mention basic principles of good administration. Article 6 of the Regulation on Application of the Law on the Ombudsman titled “good administration principles” defines clearly the principles of good administration envisaged as the supervisory criteria of the institution

4. Requirements for the Right to Good Administration

As a reflection of the rule of law principle, right to good administration includes a series of material and procedural requirements such as impartiality, proportionality, transparency, non-discrimination, right to be heard, decision making within in a reasonable time and justification of decisions, and legal remedies (Şimsek, 2007: 99). In this study, the requirements of the right to good administration such as impartiality, proportionality, transparency, justification of decisions, non-discrimination, right to access to information, right to be heard, right of defense, which are the most related ones to the taxpayers' rights in tax inspection processes, were addressed.

Impartiality requires to act in accordance with objective and legal rules, regardless of personal interest and to avoid arbitrary acts and privileged practices. Proportionality is a principle that emerged in relation to the protection of the rights of people against public regulations. Discrimination is the unequal treatment to those who are in a similar or identical situation and unequal treatment without any justified reasons (Raad, 1986: 11). This principle protects individuals in similar situations from discrimination (Yaltı, 2006: 185).

Transparency requires the administration to be open and transparent in accessing and sharing information in the process of decision-making and decision-implementing. The right to be

heard implies an opportunity of self-disclosure to persons on the subject matter of the administrative act, prior to the administration's decision limiting persons' legal status or affecting their rights. The individual's right of self-defense depends on his/her knowledge on the subject. It is not possible for the person who does not know that there will be any act about him/her, the person who is not warned that his/her behavior is wrong, and who does not have any information about the content of the files and documents kept by the administration, to participate in the process and explain their opinions (Akıllıoğlu, 1983: 101).

5. Evaluation of good administration in tax inspection process: theory and practice

5.1. Tax Inspection in Theoretical Dimension: Concept, Institution, Process

A tax inspection is an in-depth investigation of the taxpayer's book accounts, documents, and inventory in order to ensure the accuracy of the taxes to be paid (Öncel et al. 2015: 100). Tax inspection means confirmation of events and facts in terms of both the taxes and tax penalties by binding them to evidence (Yaltı, 2016: 54). All taxpayers are not subject to tax inspection, as well as the inspection does not cover only taxpayers (Oktar, 2018: 231). One of the conditions for a sound functioning tax system based on declaration is that tax inspections are widespread and effective (Karakoç, 2014: 322). Since it is not possible for each taxpayer to go through tax inspection, the system requires the conduct of tax inspections to be on the basis of efficiency and performance (Soydan, 2015: 452).

During the tax inspection process, some rights of the taxpayer should especially be protected. This is not only the obligation of the tax administration towards the taxpayer but also a requirement for the right to good administration. Fundamental amendments with respect to the tax inspection process were imposed by Law No. 6009. Subsequently, important innovations protecting the rights of the taxpayer in the audit process were made by regulations. Article 5 of the Regulation on the Tax Audit Procedure states that the tax inspectors should act according to principles of impartiality, fairness, transparency, integrity, and rule of law during a tax audit. It must be noted that tax inspections may still be initiated even if no risk has been identified with regard to the taxpayer and no one has denounced or made a complaint against the taxpayer (Arık, 2017: 399). In other words, the inspection process is not foreseeable, is rather vague. It there is no specific mechanism to control the impartiality of the administration and the fact that the inspector is granted the authority of seizure without the decision of the judge in the event that the concerned persons refrain from signing the minutes, (Uzun Çam, 2017: 198) seriously damages the rights of the taxpayer.

5.2. Judicial Approach: Constitutional Court Decision

In an individual application decision[1] of the Constitutional Court, the Court shows a concrete example which proves that the tax legislation and its implementation do not work in parallel. According to said individual application decision, the tax administration conducts proceedings

[1] Constitutional Court, Reis Otomotiv Ticaret ve Sanayi A.Ş., Application No: 2015/6728, T: 01.02.2018, (Official Gazette: 07.03.2018, 30353).

that give different tax consequences to taxpayers who are in a similar situation in the tax inspection process causes discrimination in relation to the right to property.

It is important to underline that the comparability, justification and proportionality tests are gradually applied to the facts of the case when the Court deliberated whether prohibition of discrimination is violated. Accordingly, it was concluded that since the consequences of the discriminatory interference without an objective and reasonable justification with the right to property were not rectified, the extent of the interference and the severity of the consequences as well as the administrative acts which led to these consequences caused an excessive burden on the applicant. Thus, in the above-mentioned case, the Constitutional Court found a violation of the prohibition of discrimination in the context of the right to property and emphasized good governance principles.

6. Conclusion

Since 2010, a number of regulations have been made in favor of the taxpayer in our legislation. When these regulations are examined, it has been seen that the principles and rules that meet the requirements of the right to good administration are mostly included in the regulations with respect to tax inspection. By limiting the subject, period and the information and documents to be requested during the tax inspections, a possible abuse of the power of discretion of the tax administration is prevented. Moreover, certain important steps have been taken to ensure that taxpayers' objections and disclosures are recorded in the minutes, and to protect the right of defense and the right to be heard of the taxpayers.

In the event that individuals subject to tax inspection hesitate to sign the minutes, Article 141/2 of the Tax Procedure Law authorizes the tax inspector to seize their documents and books, which contains facts and accounts mentioned in the minutes, regardless of their consent and not to return these documents and books until the taxes and fines incurred as a result of the inspection are finalized. This provision grants the inspector the authority of seizure without the decision of the judge. This measure, which is intended to ensure the signature of the minutes, results in a disproportional interference. In the same vein, the fact that the tax technique reports, which are the basis of the tax inspection reports, are not given to the taxpayer due to tax privacy, restricts the right to access to information, the right of effective defense and hence the right to a fair trial. In order to remove the regulations that restrict or eliminate the above-stated rights of the taxpayer, legislation and its implementation should be consistent. In this way, the assurances and the effective protection of taxpayers' rights in the inspection process can be ensured.

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A SUGGESTION ON COOPERATION BETWEEN TAX REVIEW AND INDEPENDENT AUDIT: RISK ANALYSIS MODELS

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Abstract

The subject of the audit, financial reporting of Turkey Accounting Standards (IAS), according to the audit whether conforms to the principles of financial statements is directed to the presence of significant inaccuracies risk (errors, true contradiction reasons such as cheating). And this audit is done based on International Audit Standards. In this case, the independent auditing of the financial statements, which are evaluated in terms of the principles taken apart from the tax legislation, is not completely excluded from the taxation and tax reviews.

Structural and control risk, which is defined as the material misstatement risk in the International Audit Standards (fraud in the financial statements, carrying risk elements, improper transfer of resources to the partners, transfer pricing, irregular stock count, undocumented or irrelevant expense / cost, real the fact that the assets are in a position to be reflected, such as the existence of the assets and different from the intended use), will be used as an instrument to prevent the tax loss and to be used in the tax inspection of the audit and the taxation. Therefore, the results and process of audits should be used by tax review organizations in risk analyis models.

At the same time, the fact that the taxpayers who are subject to tax reviews is required by the independent auditors to have access to this information objectively and the transfer of information will contribute to the coordination between tax reviews and audits. Thus, auditors can widen their plan by benefing from tax reviews.

Keywords: tax review, tax investigations, audit, international audit standards, risk analysis model

JEL Code: H20, H26, H29

1. Introduction

With the Resolution of the Council of Ministers published in the Official Gazette dated 19 March 2016, these criteria were determined as 40 million TL and above, net sales revenue was over 80 million TL and the number of employees was 200 persons and above. Therefore, in 2016 and 2017, companies which provide either of the three criteria will be subject to independent audit in 2018.

According to the Procedures and Principles to be followed in the Tax Investigations(Review) and our other regulations, the arithmetical average of the asset size in the large-scale taxpayer class with net sales is determined to be over 50 million TL. Therefore, independent audit will be possible in terms of all groups (large, small and medium scale) and will constitute a high capacity (in taxation).

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Independent Audit, Turkey Auditing Standards (BDS)[1] is performed according to standards Public Oversight, Accounting and Auditing Standards Agency (KGK) by formed in accordance with international standards and has been adopted in the Official Gazette published.

2. Linkage of Independent Audit and Tax Review

2.1. Scope of Independent Audit Report and Audit Opinion

An independent audit, in addition to whether the entity's financial report complies with the relevant standards; whether it is true, whether it is actually declared (whether the receivables really exist, if there is any, as much as it is declared, whether the inventory is counted, whether the sales are the same or not, if the discounts are declared correctly, examines the bank's reconciliations. Therefore, it is not only the provisions of the TAS / TFRS for valuation purposes; the nature and reality of the event are also audited. As a result of this audit, certain opinions arise and are publicly disclosed in the independent audit report.

As a result of the Independent Audit, four types of opinions can be given about the entity's financial statements: Positive, negative, limited positive opinions and avoidance of providing opinions.

In our article, it will be examined mainly under two headings and classified as a positive opinion and a view other than a positive opinion.

Positive Opinion: It is given when sufficient evidence has been gathered and the financial statements are taken as a result of the collective valuation of these evidence and reflected in the fact that the financial statements are accurate.

Audit opinions other than positive opinions are specified in the Independent Audit Standard (BDS-705). These are limited positive opinion (conditional opinion), negative opinion and avoidance of opinion. It is explained that these opinions are given due to the failure to collect errors, fraud or sufficient evidence in the financial statements.

2.2. The Relationship of the Independent Audit Report with the Tax Reviews

Giving an opinion other than positive opinion within the scope of auditing standards means that the financial statements that reflect the results of the operations of the business are inaccurate and do not reflect the truth. A mistake in the financial statements may be due to both error and fraud. In both cases, a tax is a risk factor in terms of tax revune of Treasury.

Within the scope of the ir inaccuracy yerinde stated in the Independent Auditing Standards, independent audit reports, tır there is transfer pricing, the stocks are not counted correctly or their counts are not reliable, the discounts do not reflect the reality, the bank reconciliations cannot be made, property rights are not appropriate if such as taxation will affect the process. In fact, the valuation provisions in terms of some issues overlap with accounting standards (TMS) and tax legislation.

In this case, it will be understood that there is an important risk factor for the determination of the direct tax base. Therefore, the content, scope and reason of the opinions, except the

[1] These standards are translated from IAS and IFRS by international standards.

positive opinion given in the independent audit report, should be analyzed and analyzed as to what kind of risk it carries in terms of taxation and it can be determined by examination.

On the other hand, independent audit reports which have positive opinions can be examined in the examinations. Because, as stated, although the audits are performed in terms of the valuation and principles in accordance with the provisions of TAS / TFRS, the fact that the statements in the financial statements are determined in terms of existence, completeness and classification, can be used as data in the investigations. In the independent audit reports, reasonable assurance is provided, however, the evidence obtained and the result of the audit are clearly stated.

In addition, the examination of the subject matter directly in the audit report or the relevant evidence may be reached. In this case, it will be possible to conduct the examination more quickly. For example, information on investment bonds or the review of evidence and research collected in the audit report on the ownership of depreciable economic assets and use by tax authorities for reviewing the tax shall provide speed in terms of shaping or comparing the data to be collected in the review.

2.3. Statistics on Independent Audit Reports

In the study conducted on KAP (Public Disclosure Platform) website, it has been determined that the opinions given about the independent audit reports submitted to the Public Disclosure Platform in the last years are as follows.

Opinions in Independent Audit Reports			
Type of opinion	***2016***	***2017***	***2018***
Positive	2.000	992	1.044
Limited Positive	468	148	190[1]
Avoidance Of Providing Opinions	27	12	14
Negative	3	0	0
Toplam	**2.498**	**1.152**	**1.248**

Therefore, by analyzing the risk of taxation by examining the companies that do not have a positive opinion, the risk of tax loss is high and whether the examination will be effective and whether the taxpayers can take the opinion of the taxpayers in favor of an opinion other than the positive opinion. The decision to discontinue is required. Because this error in the financial statement may also have caused a tax loss.

[1] For example, one of them is owned by A Bank and it is stated that there is not sufficient evidence that TL 1,475,000.00 of expenditure is fair.

3. Benefiting from Independent Audit Reports in Tax Review

3.1. Knowledge and Contribution to Tax Analysis

For the reasons explained above, it is possible and necessary to benefit and use the independent audit activities in tax reviews.

For example, in an audit report with conditional opinion, *"there is not enough evidence about the existence and existence of companies related to the tangible fixed asset balances included in the financial statements of sahip a subsidiary of the Group mevcudiyet A.Ş. dated 31.12.2015."* This statement indicates that there is no evidence that the fixed assets are the property of the entity and that the amount stated is fixed; that is, there is no proof that the entity is not a property owner; if this situation is evaluated in terms of ownership in terms of taxation, it can be deduced that depreciation allocation is not possible if it is determined that the entity does not have ownership. It will therefore need to be analyzed as a risk factor and referred to this aspect of the review.

In another audit opinion, *"in Holding's financial statements dated 31.12.2014, the Holding has a total receivable of TL 11.727.794.00 from the group companies, affiliates and related companies, and accrues any interest at the end of the year by the Holding regarding these receivables. It was avoided. No payment plan has been provided from the Holding regarding the collection of these receivables."* This situation constitutes the risk of tax loss through transfer pricing as a whole.

3.2. The Decision on Dispatching to Tax Review by Audtt Reports

In accordance with the aforementioned findings, it can be decided by the Tax Inspection Board (related unit) whether the tax evasion stated in the report as a result of the fact that the deficiencies mentioned in the report contain irregularities in terms of tax legislation.

As a result of the independent audit reports of the companies which are subject to independent audit by the Tax Inspection Board (VDK) by the Public Oversight, Accounting and Auditing Standards Authority (KGK) and Public Disclosure Platform (KAP), data should be provided within the scope of continuous information in the form of classification of opinions given out of positive opinion and positive opinion. In this context, it is possible to collect the data to be requested in the form of başlık positive opinion and opinions other than positive opinion under two headings.

1- Positive Opinions: In the Tax Inspection Board (VDK) Information System, in the Tax Inspection Board Analysis (Risk Analysis), which is a taxpayer basis, there is an independent audit report and the website (which will publish on the website of each company) a sample of the report should be given. Thus, the inspection staff will be able to see which tax payer is an independent audit report, and will be able to obtain the available data in its own review by examining the relevant report.

2- Opinions Other Than Positive Opinion: Independent audit reports (conditional, negative and avoidance of opinion) should be directly classified and classified by the PDP and the POA.

Within the VDK, it should be determined that a unit to be formed within the risk analysis unit or as a separate unit and the independent audit reports to be analyzed should be analyzed

(those considered to be disruptive in terms of tax legislation). In this way, the issues identified and which constitute a risk in terms of tax legislation should be referred for examination in terms of issues that lead to opinion other than positive opinion. Here, it is natural to consider the effectiveness of the assessment as the amount. Thus, with the assignments to be established, the matter which is directly seen as a risk factor is determined and the investigator will be concentrated on this point and an efficient tax examination will be carried out.

Thanks to this method, independent audit reports will be utilized and a new criterion will be introduced to the risk analysis system and the scope of high-risk tax loss, as in the above example, will be quickly, effectively and efficiently replaced by tax inspection.

3.3. Particular Situation Disclosures

Companies that are obliged to notify the Public Disclosure Platform have obligations to make material event disclosures when they encounter certain situations, other than independent audit reports.

Material Disclosures: All information required to be disclosed in accordance with the ın Communiqué on the Principles Regarding Public Disclosure of Special Cases lar which may affect the value of the capital market instrument and investment decisions of investors.

These special circumstance announcements should be continuously monitored by the relevant department of the SCM and used in the risk analysis model and the determination of possible tax risks should be ensured. Thus, it will be ensured to detect important tax losses such as a media tracking system or notice.

4. Benefiting from Tax Reviews in Independent Audit Reports

Comprehensive and supportive of the independent audit in transparent and investable markets will increase the quality and confidence of the audit.

4.1. Notification of Tax Reviews/Investigations to the Public Oversight Authority(KGK)

In the case of the protocol, as mentioned in Chapter 3, transfer of information from KGK and KAP to VDK should be accompanied by transfer of information from VDK to KGK. The subject of this information is that the companies subject to independent audit are subject to tax inspection at the moment. In this way, independent auditors will be provided with sufficient information to ensure they have detailed information about the tax review and the scope of tax review.

In the protocol between the KGK and the VDK, if this point is addressed and requested by the KGK, the scope of this information should be given by the VDK to the KGK. This will be possible by informing the KGK of the tracking number given in the minutes of review for companies subject to independent audit.

This issue does not constitute a drawback in terms of the tax privacy stipulated in Article 5 of the Tax Procedure Law. Because it is necessary for the statutory auditors to reach this information within the scope of the Turkish Commercial Code and it will be considered as

internal information and not the disclosure of the secret. Also, Tax Procdure Law in Turkey, Article 5 It is stated that with the new provision set forth in 5, the information requested by public institutions will not be covered by tax privacy.

4.2. Disclosure to Possible Risks in Tax Review Reports

In the reviews/investigations, even if there is no tax loss or risk for the period examined, the risk factors will be included in the tax review report even though it is not subject to review in the following periods. Because, independent auditors should take this into account in the independent audits and prevent the risk of material misstatement. In this respect, the issues identified by the investigator will be taken into consideration by the independent auditors.

For example, in the case of an exemplary Tax Technique Report, *"If the expenses for the new product obtained as a result of R & D expenses are in accordance with the tax legislation, it is possible to take into account the tables classified in the annex to the 12th Report in the evaluation stage according to the accounting standards."* It will be efficient to use the tables which are already ready in the auditing of the audits by the independent auditors according to the standards.

Although it is not an obligation in terms of the tax review purpose, it will be beneficial to show the necessary sensitivity by the inspectors.

5. Conclusion

Contributing to the Tax Reviews and Independent Auditing processes by making use of each other; In particular, the negativities identified in the independent audit reports should be subject to a tax assessment in order to assess whether tax loss is caused or not.

For this purpose, with the protocol to be made between the Tax Inspection Board (VDK) and Public Oversight, Accounting and Auditing Standards Authority (KGK) and the Public Disclosure Platform (KAP), the companies subject to independent audit from these institutions and the following independent audit report information will be provided:

A sample of the report should be provided on the website (on every website of the company) where the independent auditor report is an independent audit report and the independent audit report can be accessed. Independent audit reports containing opinions other than positive opinion, within the risk analysis unit within the VDK, or a unit to be formed as a separate unit, the analysis of the said independent audit reports is required to undergo a tax investigation (the opinion is considered to be a defect in terms of tax legislation) should be determined and sent to the tax inspection.

It is useful to inform the Public Oversight Authority of the companies subject to independent auditing in case they are shared with the public institutions in order to be able to benefit from the tax inspection process by the independent audit parties in order to be able to benefit from independent audit parties and to ensure that they have access to transparent information about the scope of the review. On the other hand, in cases where it is deemed necessary by the inspection staff in the Tax Inspection Reports, a separate chapter should indicate the situations that may cause events that would not reflect the reality in the future or that would constitute compliance risk.

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Implementing Regulation on Procedures and Principles to be Followed in Tax Investigations

Number of Decisions of the Council of Ministers: 2016/8549

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Turkey Accounting Standards / Turkey Financial Reporting Standards, Public Oversight, Accounting and Auditing Standards Agency

http://www.vdk.gov.tr

http://www.kap.org.tr

http://www.kgk.gov.tr

FINAL ACCOUNT BUDGET IN ESTABLISHING BUDGET RIGHT, ASSESSMENT AND RECOMMENDATIONS: THE CASE OF TURKEY

Serdar DUMLUPINAR[1]

Abstract

States need income to provide for some of their needs and, based on sovereignty, direct their economic decisions on the individuals who make up the society. The budget right has developed as measures to prevent the inflexibility of these economic decisions. From this point, the right to budget implies limiting the incomes and expenditures of the states by members of the society and the approval and control of these limitations every year. There are many tools to implement the budget right. The final account budget is one of these tools. The final account budget aims to determine whether the competence given in the previous year budget is used within the limits set by the legislative body. The aim of this study is to determine the location and impoprtance of the final account budget in establishing the budget right and in particular Turkey's application is to identify aspects that hinder the right budget and to propose solutions to these difficulties. In the study, the final account budget; aspects that hinder budget right, have been detected in particular Turkey and have been mentioned in solutions for them. The aspects created the fault, mainly; commission structure, meeting schedule, creating awareness process and political applications. The solutions of these problems, which create problems, were examined and expressed in the study. ccordingly, for the solution; the establishment of a new final account commission, changing the timetable for the final account budget, the development of information tools for raising public awareness, and the suggestions for change in the electoral system and amendments to the control at a constitutional level were discussed in the study.

Keywords: Budget Right, Final Account Budget, Democracy

JEL Code: H60, H61, H83

1. Introduction

The budget right can be used through many tools. Control of the final account budget is one of these tools. The final account budget refers to the legislative control of governments over the past year's budgets. The final account budget, how the competence of the legislature to authorize to exucutive body, helps to examine the data obtained through realizations.The fact that the final account budget contains final results regarding the realization of the applications is of great importance in the use of the budget right, as well as the right to approve the budgets, as well as the control of how this authority is used.The purpose of this study is to express the role of the final account budget in establishing the budget right and to examine the current structure in our country and to identify the aspects that disrupt the budget right and to offer solution suggestions for this.

The limitation of the study is to limit the establishment of the budget right with the final account budget.Apart from the problems and solutions mentioned in this study, there are

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many problems and solutions to improve the budget right.However, they are outside the subject. The study also was limited to our country due to contains in special fields application of Turkey.

The study consists of 2 sections except the introduction and conclusion sections. In the first chapter, the concept of budget right will be examined by explaining the relation between budget right and democracy. In the second part, the final account budget and budget right relationship will be expressed and the final account budget implementation in our country will be examined.In addition, the aspects of the application which disrupt the budget right and suggestions for solutions will be discussed in this section.

2. The Concept of Budget Right and Content

2.1. The Relationship Between Budget Right and Democracy

Historically, policy and economy studies have been very closely related. Economy influenced to policy decisions at the same time policy decisions influenced to economy decisions (Holcombe, 1996: 18). Accordingly, it should be stated that financial institutions and systems are born and developed in parallel with political organizations and systems. Historical experience means that the centralization of the entire financial system in its country, in order for a state to have full sovereignty and authority,The fact that all of his incomes were to enter his own treasury and all his expenses were to be paid by him again (Feyzioğlu, 1984: 14). The budget right has political characteristics because of the fact that the budgets to be implemented include characteristics that affect the social life and force the society on some issues. Therefore, the use of the budget right has become an unseperable part of the sovereignty right in every period of history (Özbilen, 2013: 16).

2.2. The Concept of Budget Right

The society that accommodates many different individual requests reaches a consensus on the public space to be governed by elections (Hırsch, 1970: 18). The budgets brought by the consensus resulting from the elections have a quality that reflects the needs of the society in this respect (Lynch, 1985: 6).

Sayar (1964), has defined the budget right as budget, the amount of the expenses to be made with the revenues obtained from tax and other sources as the right of determination and approval.According to Batırel (1990: 5) budget right is the right to determine the amount and composition of public expenditure and revenues.Gürsoy (1980: 56) expressed the budget right, where and to what extent the state should spend money, and what kind of obligations will be put as a result of these expenditures, to decide on behalf of the nation or the nation, and the status of authorized representative assemblies.

The budget right consists of 3 elements in the light of these definitions. These are the problem of determining the general needs in the society and making them subject to public services, the kind of income to be used in making social expenditures and their collection and decision power, how and how to use them (Özbilen, 2013: 16).

3. Final Account Budget

3.1. Final Account Budget as a Function of Budget Right

In terms of the exercise of the right to budget, legisture authorizes to executive body to obtain public revenues and make public expenditures, naturally requires the auditingof the exercise of these powers (Bağlı, 2014: 51). In terms of the use of the right to budget, not examining how the authority given by the budget law is used by the legislative body will cause a contradiction with the logic of law.For this reason, the legislature, which approves the budget, also makes use of the budget right by checking the results. (Ayanoğlu, 2016: 146). A right only carry value when it used. The final account budget also represents the use of budget right through the control of the authority granted to the executive body by the legislature (Gürsoy, 1980: 444).

3.2. Structure and Functioning of the Final Account Budget in Turkey

3.2.1. Sides to Final Account Budget

The structures that are effective in the process of preparing and enacting the final account budget are the President, the Ministry of Treasury and Finance, the Court of Accounts, the Planning and Budget Commission and the Assembly General Assembly.

3.2.2. Legal Basis of Final Account Budget, Preparation and Discussion

The final account budget is applied together with mainly Constitution and the Law No. 5018.Arrangements, tables specified in Law No. 5018 and regulations about other tables prepared by Ministry of Finance, has been determined with ‘‘Regulation on Principles and Procedures Regarding the Regulation of Final Accounts of Public Administrations’’, published in the Official Gazette dated 26.04.2006 and numbered 26150 published by the Ministry of Finance.

3.2.3. Acceptance and Denial of Final Account Budget

The budget process includes a two-way legislative activity. The next year's budget is discussed and approved, and the final account budget is discussed and resolved.It is known that both budgets are limited by the same date range in terms of the length of consultation and approval in the parliament.Each legislative process includes the option of rejection as well as approval.

3.3. Major Aspects and Solution Suggestions Hindering Budget Right Sources From Final Account Budget in Turkey

In the light of the information related to the application, if the issue is needed, the weakening of the legislative control over the final account budget within the existing system;

• Inadequacy of the existing commission structure,

• Interview schedule is inappropriate for auditing

• Inability to obtain information channels,

• Challenges brought by the electoral systemcan be expressed as.

On the other hand, if needs recommendations gathered;

- A new final account commission should be established. A commission structure in which the chairman is elected from the opposition and the interviews open to the media is important in terms of final auditing.
- The meeting schedule is very important for the subject. A more appropriate timetable should be determined and final account budget negotiations should be separated from next year's budget negotiations and should be taken forward.Thus, in the next year's budget negotiations, it will be possible for legislative members to benefit from past year practices.Also the tight schedule, therefore, remains in the background of the final account will be eliminated and also will increase awareness of the members of the legisture, the government and the society. Thus, the issue of accountability will be ensured by controlling the final account budget.
- Awareness should be increased in the context of the right to budget by operating information retrieval channels. In order to ensure that the commission meetings on this subject reach the public; open meetings, the existence of a report containing the problems identified in the final audits, and the traceability of such reports, where the commission deems necessary, it should be ensured that the top executives of the expenses can be called to the meetings.The implementation of the follow-up reports and the practices of the executive branch on the results contained in these reports, before the new year budget process, and to the public through the media, will make a significant contribution to the functioning of the budget right.
- Narrowed selection system method; will lead to the elimination of the parlieamentarians from the party pressures, the legitimacy of the policies they implement, and the freedom of movement. In addition, the method of interpillation andsubjecting the appointment of ministers to the parliamentary approval will also serve as an important auditing function.

4. Conclusion

The final account budget is a structure that expresses the implementation of the governments' past year budgets. While the next year's budget expresses forecasts, the final account budget represents the realizations. For this reason, the legislature's control of the executive body through the final account budget and the approval of the final account budget as a result of these audits means that in a sense the government approved its past practices.In this respect, audits on the final account budget are an important tool for auditing the implemented applications.

Final accounts are submitted to the General Assembly after being discussed together with the next year's budget in the plan and budget committee and are approved and discussed together in the General Assembly.The problems we face here are that the final accounts do not have a separate final account commission to allow for an adequate review, and they are less important than the next year's budgets in terms of the negotiating schedule.In this respect, a discussion schedule should be organized and a separate final commission

commission should be established. Together with the legislative and executive members, it is seen that the people lack the necessary sources of information on the final account.Interviews should be provided to the public through open meetings through media, and the follow-up of the applications in the following years should be ensured on the problems mentioned in the reports created as a result of the final audits.Thus, awareness of all stakeholders will be increased. Party pressure and the dominance of party policies on legislators are an obstacle to their ease of movement. This situation in the process of final auditing, causes the legislators who are restricted to freedom of movement to remain inadequate in defending the budget right.The narrowed zone selection system for this case would be a good practice. Thus, the pressure on the legislators will be alleviated, and the real owner of the budget right will not feel responsible for the people, not the party administration.Finally, the interpillation method and the approval of the appointments of ministers by the parliament will also increase the operability of the audit and, hence, the budget right.

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THE AUDITION OF FINAL ACCOUNTS LAW: A CRITICAL APPROACH ON THE INEFFICIENCY OF EXISTING AUDITION AND SOLUTION OFFERS IN ORDER TO PROMOTE EFFICIENCY

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Abstract

The detection of flaws in the audit of the final accounts law, which is an indicator of the compatibility of the revenues collected and spending in a given financial year made by the executive body to the budget law, and efforts to address these flaws is a major requirement for fulfilling the principle of the rule of law and ensuring the budget right. In the study, regarding the importance of final accounts law in the realization of rule of law principle and budget right, the characteristics of the final accounts law and the auditing mechanisms on it are being examined. Such examination is held through a critical approach and ineffective and problematic sides of the auditing are tried to be sorted out. In the light of that research, solutions are tried to be developed. Regarding that aim, in the conclusion section, the mechanisms required to address the flaws caused by the shortcomings of the conducted audits will be discussed and suggestions that would remove these shortcomings will tired to be suggested. As it can be seen in the discussions, the most possible and effective way to remove the flaws in the auditing of the final accounts law can be appointed and zoomed on the legislative branch. On the basis of the characteristics of the auditions, solutions will be more focused on legislative level as well.

Keywords: Fiscal accounts law, legislative audition, court of accounts, constitutional court, public budget

JEL Code: H00, H61, H83

1. Introduction

The legislative body authorizes the executive body to collect revenues listed in the budget estimates and make spending by approving the budget law. The executive body is expected to use this permission and approval in the same budget year in accordance with the constitution, budget law and other existing regulations and it use must be reviewable (Erginay, 2010: 206). The budget control can be conducted in two main stages; during and after the execution. And the clearest indications concerning the corruption and irregularities can be detected in budget controls conducted after the implementation (Uluatam, 1978: 84). Therefore final accounts law serves as the main audit tool in determining whether the executive body exercised the authority granted to collect revenues and make spending in accordance with the law. Regarding the mentioned importance of the final accounts law, fixing the flaws within the audition of such law is a major necessity. Therefore, this study will examine the existing auditing methods on the final accounts law in our country from a critical point of view. Afterwards attention will tried to be dawn on the aspects that are not covered by these auditing methods. The study will examine the audits conducted on the proposal by the court of accounts and later by the Turkish Grand National Assembly (TGNA) and finally will deal with the nature and the scope of the examination of compatibility to the constitution which might emerge after the proposed law had been legislated.

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2. Final Accounts Law

The final accounts law serves as an instrument to demonstrate whether or not the revenues collected and spending made in a given financial year by the executive body are undertaken in accordance with the budget estimates and existing regulations (Mutluer, 2006: 315, 316). Thus, in a sense, the mentioned law would mean the discharge of the budget execution and is an indication and result of the fact that the sovereignty remain at the hands of the nation (Bulutoğlu, 2004: 167). Due to this function and its importance, the law has been safeguarded at the constitutional level as well. Article 161 of the constitution states "Central government final accounts bills shall be submitted to the TGNA by the President of the Republic within six months of the end of the relevant fiscal year… The final accounts bill shall be debated and adopted together with the budget bill of the new fiscal year." While the constitution designates the status of the final accounts law as mentioned above, article 42 of Public Financial Management and Control Law No: 5018[1] (Law No 5018) notes that TGNA "exercises its power of approving the implementation results of the budget law through the final accounts law".

3. The Auditing of Final Accounts Law

On the basis of the article 161 of the constitution and article 42 of Law No: 5018, the audit on the final accounts law can be classified as Audit by Court of Accounts and Audit by TGNA. As in all other laws, the final audit that would be carried out on the law in question is the compatibility by the Constitutional Court.

3.1. Court of Accounts

Court of Accounts is designated in the article 160 of the constitution and on the basis of this designation the court describes its duties as "auditing, trial, and reporting[2]." The Court of Accounts carries out an auditing and reporting on the proposal of the Final Accounts Law and its operations in this process bears the character of an advice for the TGNA. Article 161 of the Constitution obliges the Court of Accounts to submit its statement of general conformity to the Grand National Assembly of Turkey within seventy-five days of the submission of the final accounts bill. Even though, it is stated in the Constitution that submission of the reports from the court of Accounts to the TGNA does not end the unfinished audition of the court on accounts, such audition does not give rise to any political consequences on the politically liable ones. The Court of Accounts can only opt for not including the data that it does not have in the statement of general conformity, and not issuing a statement of general conformity if it does not view the Final Accounts Bill as appropriate or listing the unlawful deeds in the statement of general conformity report. Even in such a case, there are no designated enforcements regarding the contradictions of the Final Accounts Bill.

3.2. Turkish Great National Assembly

As designated in article 161 of the constitution, the Final Accounts Bill has to be submitted to the parliament within six months from the end of the relevant financial year. The Final Accounts Bill is initially submitted to the Planning and Budget Commission of the parliament. Prior to the constitutional changes of 2017[3], the composition of the Planning and Budget Commission was specifically designed in the constitution, in the new situation there is no

[1] 5018 sayılı Kamu Mali Yönetimi ve Kontrol Kanunu, R.G. 24. 12. 2003, S. 25326.
[2] T.C. Sayıştay Başkanlığı. (2018). Sayıştay'ın Görevleri, https://www.sayistay.gov.tr/tr/?p=2& CategoryId=73, (28.12.2018).
[3] 6771 sayılı Türkiye Cumhuriyeti Anayasasında Değişiklik Yapılmasına Dair Kanun, R. G. 11.02.2017, S. 29976.

mention of the commission in the constitution. The commission serves as the only platform where the opposition can discuss in detail the revenues collected by the executive body, and detect and discuss in real sense the unlawful deeds such as overspending the unlawful use or transfer of funds or acquiring insufficient or excessive public revenues. This is because after the bill has been sent by the commission to the parliament, it will no longer be possible to examine, detect and discuss its entries one by one due to the busy schedule of the parliament and lack of technical expertise among the members of the parliament. As regulated in the last entry of the article 161 of the constitution, the Final Accounts Bill will be discussed and legislated along with budget proposal for the new year. As a negative result of the political mechanism's nature to focus on the future rather than the past, in practice the Final Accounts Bill almost automatically is approved in the parliamentary counsel. Moreover, no special enforcements are stipulated either in the constitution or the relevant regulations concerning the contradictions in the Final Accounts Bill, even in case such contradictions are detected at the Commission or parliamentary counsel stages.

3.3. The Constitutional Court

The power and the duties of the constitutional court are regulated in article 148 of the Constitution. Even though it has characteristics peculiar to itself, the Final Accounts Law is still a law and since in the constitution it is not left outside the scope of the constructional court, it is subject to the audition of the court. The constitutional court's examination of the laws' compatibility with the constitution takes place in two different types, namely annulment or plea. The only form of auditing for the constitutional court on the compatibility of the final accounts law is procedural auditing. As regulated in article 148 of the constitution, this control is limited with verifying whether or not the latest vote has been conducted with the required majority. On the basis of these discussions, it is possible to argue that an effective auditing could not be implemented on the final accounts law concerning its compatibility with the constitution.

4. Solution Offers in Order to Promote the Efficiency in Auditing System

In order to realize the requirements of the rule of law principle and the budget right, it is necessary to establishment enforcement mechanisms within the chain of authority-responsibility in case the Final Accounts Law includes unlawful elements. Taking into consideration the advisory nature of the auditing by the Court of Accounts and the inefficiency of the Constitutional Court due to the contents and nature of the Final Accounts Law, it seems appropriate to suggest that the enforcement mechanisms should be strengthened by the legislative auditing.

In order to render the legislative auditing more effective and up to the task, it is necessary to focus on the commission auditing. In order to achieve that it is possible to consider examining the bill in a separate and specialized commission prior to its submission to the Planning and Budget Commission and submitting it to the Planning and Budget Commission to be discussed together with the budget proposal only after it had been examined by this specialized commission. After these, it is necessary to take the required steps to ensure that the Commission's and the Court of Accounts' reports would reach the parliamentary counsel on time and in full. Finally it is urgently necessary to abandon the habit of automatically approving the Financial Accounts Bill in the parliamentary counsel and to discuss the bill in greater detail at the parliamentary counsel. In the present system, in case the bill is rejected in the parliamentary counsel, the only auditing mechanisms available are those traditional auditing methods, designated in article 98 of the Constitution. Yet to the date, these were never implemented against the Final Accounts Law. Under these circumstances, it is not possible to argue that an effective TGNA auditing over the Final Accounts Law is being implemented. Moreover, even if such an auditing

is to be implemented, there are no effective enforcements to follow up. Thus, in case an unlawful revenue or expense is detected in the final accounts law, mechanisms to be implemented on the politically liable persons are needed. The improvements in question can placed under constitutional guarantee by including additional entries to the article 161 of the constitution, which regulates the budget law and the final accounts law and this would proportional to the importance the Final Accounts Law carries.

5. Conclusion

The Final Accounts Law is an indispensable condition in order for a country to talk of budget right. The failure to conduct an effective auditing over this law can lead to very damaging results in terms of democracy, the rule of law principle, legal certainty and security and budget right.

As discussed in the second part of this study, although there are three types of auditing on the Final Accounts Law are implemented by the Court of Accounts, TGNA, and the Constitutional Court, in reality none of these amount to a real auditing and the auditing's findings lack any enforcement ensuring that the unlawful acts in the budget execution are prevented and that those responsible for these unlawful acts are punished. As discussed in the last section of this study, in order to eliminate these shortcomings, the most appropriate auditing would be the auditing carried out by the legislative body.

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THE ANALYSIS OF THE FINDINGS REPORTED IN THE PERFORMANCE AUDIT OF STATE UNIVERSITIES

Durdane KÜÇÜKAYCAN[1] **Şafak AĞDENİZ[2]**

Abstract

With the Public Financial Management and Control Law, the public financial management and control system has been changed within the framework of a new understanding. This new systemis built on the concepts of efficiency, effectiveness, economy, transparency and accountability. One of the innovation that this new public financial management systems is the Performance Based Budgeting system. The basic tools of this system are the annual report, strategic plan and performance report. Performance audit is both an integral part of the performance-based budgeting system and an important tool to guide this system.

Performance audits of state agencies under the general management in Turkey is carried out by the Turkish Court of Accounts(TCA). The TCA fulfills the performance audit task by evaluating the quality of performance information in the basic tools of the performance-based monitoring process of public administrations. Public universities with special budgets, which are one of the public administrations within the scope of general government, are also subject to the performance audit of the TCA. The public is assured about the accuracy and reliability of non-financial performance information, which is based on the service delivery of the universities by the performance audit conducted by the TCA. The performance audit of the TCA is an integral part of both the guiding and budgeting process in terms of showing the improper practices of universities in the performance-based budgeting process and providing suggestions for correcting them.

This study aims to research the results of a performance audit of the state universities conducted by TCA For this purpose, the results of the performance audits of 38 universities, which were conducted in 2017, were examined using content analysis. As a result of the analysis, it has been determined that there are universities that do not meet both the reporting requirements and the criteria for the content of performance information.

Keywords:. Audit, Performance Audit, Court of Accounts, Universities.

JEL Code: H83, H89.

1. Introduction

Performance audit is an effective tool for controlling the effective, efficient and economical availability of public resources. Published performance audit reports play an important role in recognizing the existing shortcomings, making decisions for the future and informing the taxpayers. Therefore, analyzing the findings in the performance audit reports is an important issue in terms of public financial management.

Performance audits of public institutions in Turkey are carried out by the TCA and internal audit units. In this study, the performance audit results performed by the TCA were analyzed.

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A reason for analyzing the TCA audit reports is that these reports are open to the public and another reason is that, as stated by Akyel (2016: 120), the findings and determinations, evaluations and suggestions included in these reports are closely monitored by related institutions and stakeholders, as well as by the community regarding the academic and auditing profession.

In the light of this information, the scope of the study was determined as an analysis of the findings reported in the performance audits conducted by TCA of 102 universities in the ranking of URAP (University Ranking by Academic Performance) in 2018. The main purpose of the study is to examine the performance audit reports of the universities which have performance audits in terms of performance audit criteria. In this study, performance audit reports will be analyzed by using content analysis and the findings of the audit reports will be discussed.

2. Audit and Audit Types

The concept of audit is based on the verb "audire" which means is hearing or listening" in Latin (Bozkurt, 2015:23). The audit phenomenon, which is an indispensable element of management, is also an important tool for the modern organization understanding (Çevik, 2002:105).One of the definition in the literature related to the audit is given below:

The audit is an activity carried out in order to ensure compliance with the standards, pre-determined objectives and aims, rules and regulations related to the subject, to determine the contradictions and to make suggestions regarding the necessary actions(Candan, 2007:7).

Ensuring efficiency in resource allocation and improving the performance of management are two main functions of the audit. Several types of audits are used to achieve these two objectives. There are various types of audits classified in various aspects.

2.1. Performance Audit

Over time the growth and complexity of the state activities caused the control of the public to change and develop,thus the area of audit evolved from financial audit or conformity audit, also known as traditional auditing that was reigned for many years to performance audit (Demirbaş & Engin, 2016: 29). Performance audit emerged in the 1940s with the importance of process control to measure the productivity of firms according to industry standards (Kubalı, 1998: 12).

The most accepted definition in the literature on performance audit was made by the International Organization of Supreme Audit Institutions (INTOSAI). INTOSAI defines the performance audit as follows (INTOSAI, 2016: 7):

> "It relates to the audit of economy, efficiency and effectiveness and includes the following:

- Auditing of the economy of administrative activities according to the principles and practices and management policies,
- Auditing of efficiency in the use of human, financial and other resources, including information systems, performance measures and surveillance regulations, and review of methods to address deficiencies identified by the audited bodies;

- Auditing the effectiveness of the performance of the audited organizations in achieving their objectives and comparing the actual impact created by the corporate activities with the intended effect.

In the definition of performance audit given above, efficiency, effectiveness and economy are defined as performance evaluation components. These performance evaluationcomponents are shown in Figure 1.

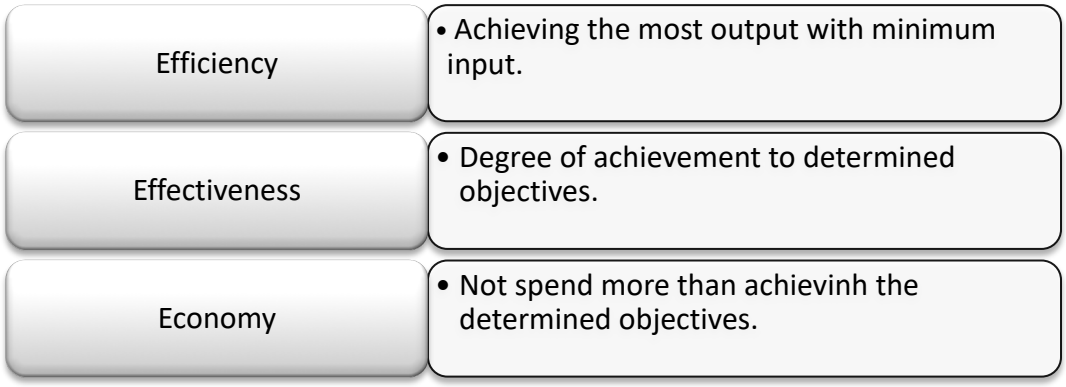


Figure 1. Components of Performance Audit

These three criteria given in Figure 1 are internationally accepted and most widely used performance audit components.



Figure 2. Performance Audit

The general features of the performance audit schematized in Figure 2 can be listed as follows (Demirbaş, 2001: 64-66):

- An organization, program, activity or service can be audited partially or fully through performance audit.

- Performance audits do not result in a judicial decision.
- Performance audit using financial and non-financial data requires interdisciplinary work.
- The scope of the performance audit is wide.
- Performance audit is a type of audit that is complex, time-consuming, requires intensive operations and beneficial compared to cost.

The main function of performance audit is to lead and guide the institutions and managers for the future (Akyel & Köse, 2010: 20).

2.2. Perfomance Audit Practices in Turkey

The introduction of performance audit to Turkish Public Administration literature was in 1996 with international initiatives. However, the performance audit was put into legal infrastructure and the resulting gaps were filled with Law No. 6085 prepared in line with Law No. 5018 (Önder & Türkoğlu, 2012: 201).

According to Edizdoğan and Çetinkaya (2016: 361) 5018 numbered Public Finace Management and Control Law (PFMC) and 6085 numbered Law on the Court of Accounts, the financial control and supervision in our country is given below.

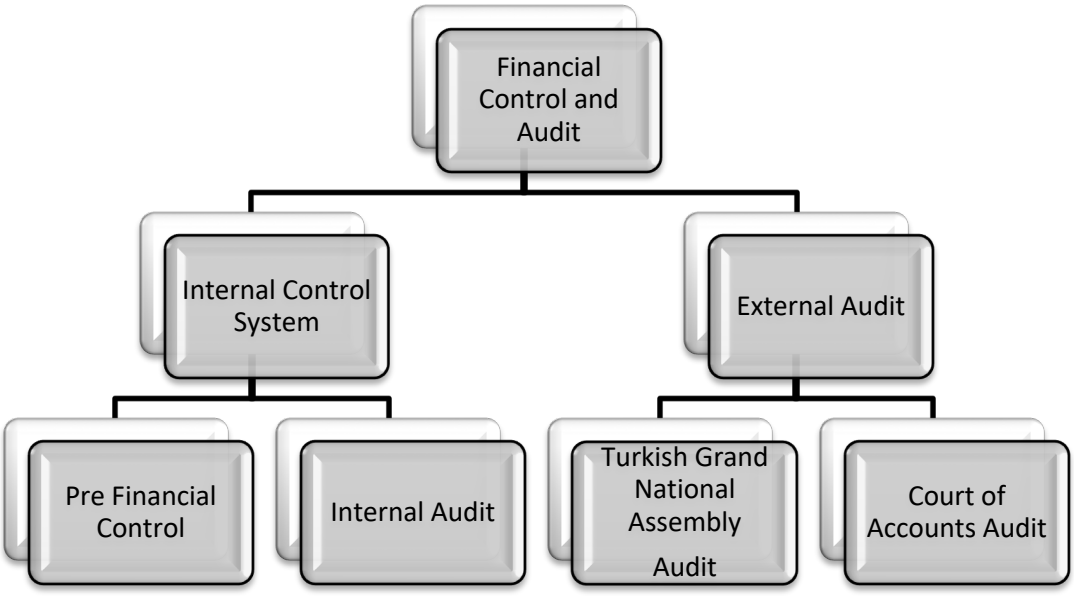


Figure 3. Financial Control and Audit in Turkey

These two Laws, where the foundations of performance audit were laid, were assigned with two bodies to carry out the audit. These:

• Internal audit units in the context of the internal control system of public institutions,

• The Court of Auditors for the external audit of public institutions.

As performance audit reports were analyzed in the study, the performance audit performed by TCA was discussed in the following section.

2.3. The Court of Accounts and Performance Audit

TCA, which has institutional and functional independence, plays an important role in the development of public administration in accordance with the principles of accountability and transparency and in the use of public resources in accordance with the law, objectives and principles of good governance(Akyel, 2016: 120). Article 36 of the Law on the Court of Accounts No. 6085 entered into force in 2010 and the task of evaluating the plans and programs prepared by the administrations (in the context of objectives and objectives, activities and performance targets) was given to TCA with the power of performance auditing. The audit tasks to be carried out by TCA pursuant to the Law article shall include:

- Regularity audit,
  - Financial audit
  - Compliance audit
- Performance audit.

In the "Performance Audit Guide" published by TCA in order to guide the practitioners, the Court of Accounts has three main objectives in performing the performance audit (Sayıştay, 2014: 6):

- In order to ensure accountability and transparency in public financial management, public administrations should provide performance information in accordance with Law No. 5018.,
- Contribute to the usefulness and quality of the reported information,
- To inform the Turkish Grand National Assembly and the public about the accuracy of the information contained in the activity reports prepared by the public administrations to monitor and report the progress they have made in terms of performance targets and indicators.

Again, in this guidance, the criteria to be used to perform the performance audit of TCA and the definitions of these criteria (what they mean) are given in Table 1.

Table 1. Performance Audit Criterias

Performance Audit Criterias	
Audit Criteria	**Definition**
Existence	The supervised administration shall prepare relevant documents according to the legal regulations.
Timeliness	Reporting of performance information within the legal period
Presentation	Reporting performance information in accordance with the regulatory principles
Relevance	Logical link between goal, objective, indicator and activities
Measurability	Measurable targets or indicators
Well defined	Have a clear definition of targets and indicators

Consistency	Consistent use of targets (including indicators) in the planning and reporting documents of the supervised administration
Verifiability	Repored performance information can be traced to the source
Validity	Any deviation between planned and reported performance is addressed by the audited entity and the reasons for the deviation are convincing and convincing.
Reliability	To be able to provide reliable data in the annual report by accurately and accurately measuring the realizations of data recording systems.

Source: Sayıştay Başkanlığı, 2014: 7

The performance reports discussed in this study were evaluated according to the criteria given in Table 1.

3. Research Approach

3.1. Sample Selection

The performance audit carried out by TCA includes all public universities. However, performance audits are not performed in all universities.Therefore, universities not performing performance audits by TCA were excluded from the study.It was determined that TCA carried out performance audit of 38 universities.The audit reports of all universities that were audited were examined and no sampling was performed.

3.2. Methodology

Content analysis is used as a qualitative method in the study. It is considered that content analysis is the most appropriate method for evaluating the results of the performance audit report.In this study, meeting/not meeting criteria that are included in the performance audit reports of the universities (criteria given in Table 1) were analyzed. Summary, general evaluation and findings section of the performance audit reports were evaluated. The information in the reports was examined and evaluated by content analysis in which performance audit criteria were fulfilled.

3.3. Findings

According to the results of 2017 performance audit, 7 university strategic plans, 1 university performance program and 6 university annual reports were not published on time in accordance with the legislation.

23 findings related to the presentation criteria of all three documents belong to the strategic plan, 17 findings belong to performance programs and 17 findings belong to annual report. The most common error forthe strategic plan are over goal setting and partial/completely includes of basic tables (T1-T5) for performance programme. While the most coomon error

for the annual report is not including the reasons for the deviations from the performance targets.

There are 21 findings about the content of the performance information criterias (relevance, measurability and well defined) of all three documents.There is a link between the strategic plan, the performance report and the annual report in the evaluation of the criterias in performance audit.For example, when the strategic plan is audited, the audit team cannot make any evaluation regarding the performance target and indicator of this target in the performance program if it is determined that the objectives in the plan are irrelevant to the objectives. For the unrelated objectives in the strategic plan, the performance program does not assess the criteria for relevance, measurability and well defined. Also, there is no evaluation for the content of performance information for universities that do not meet the timeliness criteria. Therefore, there is little evidence for the content of performance information.

When the results of the audit regarding the measurement and evaluation of the operating results are examined, it is seen that the data recording system of 11 universities has not been established regarding the existence of data recording system.Also, while out of the scope of this study, nonstandard performance audit report were seen.

4. Conclusion

In this study, the results of the performance audits of 38 of the 102 universities in the URAP ranking in 2018, which were conducted in 2017, were examined using content analysis.TCA evaluated the quality of performance information in the performance-based budgeting process of universities by performance audit. Therefore, the poor orquality of information in the documents of the universities are explained to the public through performance audit reports. The findings whetherthe universities are fulfilled the performance audit criteria is determined. As a result of the analysis, it has been determined that there are universities that do not meet both the reporting requirements and the criteria for the content of performance information.

Performance audit criteria provide guidance on how to make an accurate reporting of universities. It was observed that the performance audit of the TCA is guiding for performance-based budgeting process of universities.Therefore, it is important to increase the number of universities with performance audits. Performance audit does not cause financial and legal responsibility for university administrators. It is not mean that university administrators not be free of accountability.The increase in the number of public universities in our country increased the share of public resources. Therefore, it has necessitated for university administratorspublic resources use withefficiency, effectiveness, economy.

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MILITARY EXPENDITURE IN TURKEY: A COINTEGRATION ANALYSIS

Emre ÖZYERDEN[1] **Cevat TOSUN**[2]

Abstract

Military expenditures can be affected by countries' present and potential threats as well as several other economic factors. This situation requires analysis of the reasons for changes in military expenditures in the country. In this study, militaryexpenditures of Turkey between 1970-2017 period are analyzed within the scope of its allies, external threats and internal threats as well as other explanatory variables. For external threat data Greece's militaryexpenditure, for allies data North Atlantic Treaty Organization countries'militaryexpenditures, for internal threat data terror incidents index and Turkey's per capita gross domestic product are used as an explanatory variable. Cointegration test was performed using ARDL method with the data collected from various internationally accessible and open sources. Greece's militaryexpenditures and terror index have been found in a positive long term relationship with Turkey's militaryexpenditures.

Keywords: Military expenditure, terror incidents, ARDL cointegration analysis

JEL Code: H56, C22, N40

1. Introduction

The allocation of adequate resources to militaryexpenditures is a feature that always conserves priority and importance in every state's budget. This is because militaryspending is used not only in the formation of states but also in the borders of the country and against external threats. In public economy literature, national militaryexpenditures have the characteristics of pure public goods (Rosen & Gayer, 2008: 52). If it is produced, the fact that the benefit is not divisible personally and that no one can be deprived of the use of the service transforms militaryexpenditures into a social qualified commodity. Military expenses in this axis have an increasing trend for different countries in some periods but they are an indispensable expenditure item.Due to its geographical location, Turkey has been no exception to this generalization. Turkey is located between Europe and the Middle East which is described as an unstable region.In this state, Turkey has the potential to be affected by external threats and internal dynamics that have both have the potential to trigger militaryspending.

This study analysis Turkey militaryexpenditures for 1970-2017 period with ARDL cointegration method.In the literature, besides the threat of the neighboring country, which is frequently applied in the country examples, the analysis of the North Atlantic Treaty Organization's (NATO) militaryexpenditures and the index of terrorist incidents were analyzed.

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2. The Scope of Military Expenditures

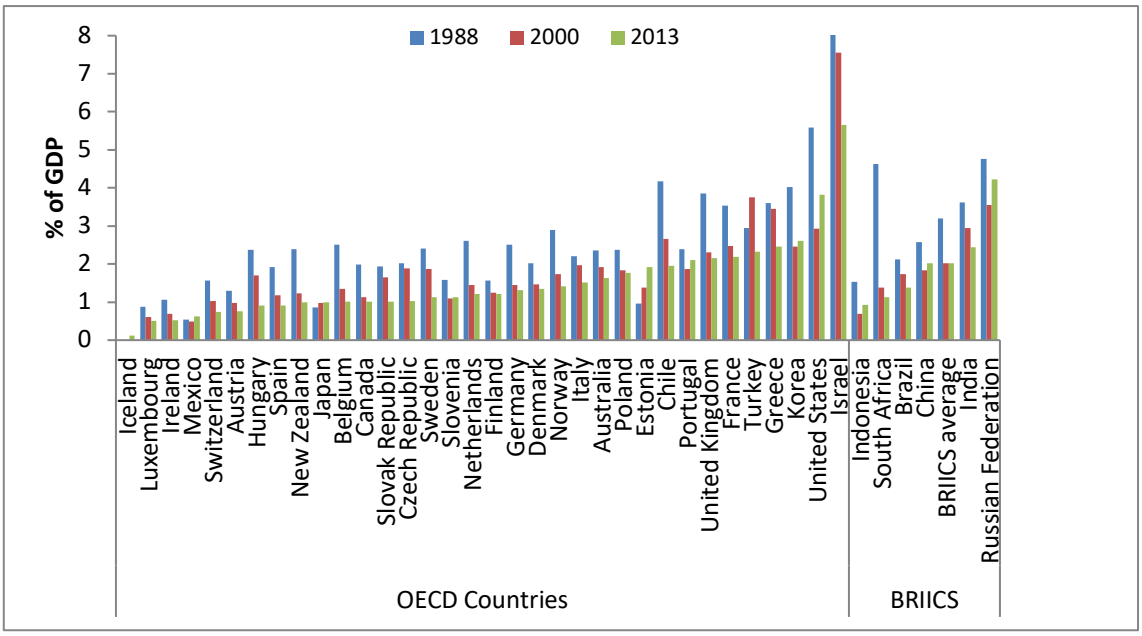
At the level of the North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF) and the United Nations (UN), different definitions of militaryspending are made.The fact that these definitions are different from each other cause this concept not to be accepted by everyone. Brzoska (1995: 46-49) points out the content of the definitions and the areas where expenditure details are partially or completely hidden / kept due to militaryexpenditures due to the strategic goal and structure adopted by the countries. The definition of the Stockholm International Peace Research Institute (SIPRI), which includes all current expenditures and capital expenditures, is frequently used in the literature.According to this definition, militaryspending includes military forces, including peacekeeping forces, militaryministries and other state institutions in militaryprojects, spending on education and equipment of paramilitary forces and military space activities (SIPRI,1973).

What service elements should be included in the scope of militaryexpenditures is shaped by internal and foreign policy elements beyond the definition of this concept.These elements complement each other and take into account the foreign policy which may be a threat to the security of the country and they are shaped according to the economic policy for the country (Sümer, 2005: 84).Dehong (2009: 82) argues that the purpose of the military is to defend, that militaryis an objective of foreign policy for almost all countries, and that militaryspending has a burden on the economy, and expresses this relationship as synergy between economy and military.

The military potential and military power of the countries are analyzed in the literature on the military capacity of a state or the ability to maintain a war. (Biddle, 2004: 2).Barnett (1992) points to the basic inputs of militaryand military spending, stating that military power is related not only to people but also to the ability to mobilize material resources for external security.From a macro perspective, military capacity is expressed as the gross numerical values of the material resources of the state and the military units of the countries play a role not only in the threat of war but also in the “arms race, alliance formation, conflict process and deterrence” (Biddle, 2004: 2-4).In this context, the reduction of militaryspending means that the national military potential will decrease. As such, militaryspending in each state budget is as important as education and health expenditures (Saunders, 1993: 26).

The following table shows the shares of the militaryexpenditures of the Organisation for Economic Co-operation and Development (OECD) countries and Brazil, Russian Federation, Indonesia, India, China, South Africa(BRIICS countries) in gross domestic product (GDP).

Figure 1. Military Expenditures according to Shares in GDP at OECD and BRIICS Countries



Source: OECD, 2016:48

Although the financial constraints are the main reasons of the change in the public expenditure distribution from the 1980s to the 2000s (Looney, 1994: 17), there is an increase in one-fourth of the 40 countries in contrast to the general decline trend. This trend has an important role in the perception of threat as well as internal and external dynamics. This situation necessitates the analysis of the change in militaryexpenditures. In the following section, the literature on the dynamics behind this change is given.

3. Literature on the Change in Military Expenditures

In the literature, there are empirical studies for country groups in addition to country-based studies to explain the change in militaryspending. The first empirical studies were based on Richarson's (1960) model of armament racing, which included countries that were potentially susceptible to active conflict (Smith, 1989).The studies carried out in the following years are composed of studies that include a relatively more comprehensive empirical tests that focuses on economic and political factors as well as military expenditures.Hartley and Sandler (1990) describe variables that are the key determinants of militaryspending, including gross domestic product, threats, the situation with allies, strategic changes and government priorities. This relationship is frequently found in empirical tests in the literature, and studies on the axis of country examples will be included below.

Looney and Mehay (1990) tested the militaryexpenditures of the United States of America (1965-1985) for the period of 1965-1985, using the predicted and unforeseen Soviet militaryexpenditures, inflation, federal incomes, federal deficits, NATO spending and dummy variables for Vietnam. As a result, the coefficient of the delayed value of militaryexpenditures was found to be close to 1.

Smith (1990) analyzed the changes in the UK's militaryspending for the period 1949-1987 and tested the US militaryspending and the Soviet militaryexpenditures and the Korean War as a dummy variable.

Schmidt, Pilandon and Aben (1990) addressed the criteria for militaryspending based on France and the differences in the definition of SIPRI. Then, they analyzed French militaryexpenditures for the period of 1965-1978 in the frame of SIPRI's definition.In the study using GDP as the income variable, they analyzed NATO spending as well as spending on Allied Africa and Soviet spending.

Fritz-Abmus and Zimmermann (1990) analyzed German militaryspending for the period 1961-1965. In the study which uses the GDP, French militaryexpenditures and NATO militaryexpenditures as an independent variable, the composition of the expenditures made by the government is used as a dummy variable.

Murdoch and Sandler (1990) examined Swedish military spending for the period 1958-1985. Population, GDP, Norway's militaryexpenditures, and Soviet militaryexpenditures were used as independent variables.

Deger and Sen (1990) examined the militaryspending of Pakistan and India. In the analysis, in addition to the GDP variable, they used arms exports, weapons production and the proportion of public expenditures.

Kollias and Paleologou (2003) analyzed Grecee and they found significant impact with income, political factor and strategic variables.

Sezgin and Yildirim (2002) investigated Turkey’s militaryspending between 1951-1998 period. According to the results of this study with some safety factors, Greece and NATO's militaryspending has been found to affect Turkey's militaryspending.In the case of country-specific studies, it is seen that the threat perception from neighboring countries and the expenditures arising from allies are evaluated together. In a wider perspective, it is seen that NATO spending is used as an independent variable in explaining militaryexpenditures. In the following section, militaryexpenditure for Turkey will be analyzed. In this context, militaryexpenditure data were collected from SIPRI, the terror index[1] was derived from the Global Terorism Database (GTD), while the GDP and population were compiled from the World Bank's database.

4. Methodology and Estimation

In this study, military spending of Turkeybetween 1970-2017 (lntrmilpc), is analyzed within the scope of external threats, internal threats, allies’military spending and other explanatory variables.For external threat data Greece's military spending (lngrmilpc), for the Allies data NATO's military spending (lnnatomilpc), for internal threat data domestic terror index (ter) and Turkey's people the gross domestic product (lngdppc) were used asexplanatory variables. Military expenditures and gross domestic product were usedin natural logarithmic termsand per capita values, while the terror index, which contains 0 values, was formed by the inverse hyperbolic sinus transformation which is close to the logarithmic scale.

[1]The index of terror was formed by the index = number of events + (number of deaths * 3) + (number of injured * 0.5) instead of the GTD index.

The following table shows the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root test results of the variables.Accordingly, while some of the data are stationary at the level (I (0)), some become stationary when the first differences are taken (I (1)). Therefore, ARDL bounds test method, which allows analysis with both I (0) and I (1) data, is adopted.

Table 1. Unit Root Tests Results

Variable	**Unit Root Tests for Variables**							
	ADF				PP			
	Level		1st Difference		Level		1st Difference	
	Constant	Trend and Constant	Constant	Trend and Constant	Constant	Trend and Constant	Constant	Trend and Constant
lntrmilpc	-3.30**	-3.30***	-5.09***	-5.20***	-2.96**	-2.78	-5.30***	-5.28***
lngrmilpc	-2.86*	-3.02	-4.57***	-4.71***	-2.51	-2.50	-4.57***	-4.74***
lnnatomilpc	-1.80	-5.95***	-4.23***	-4.19***	-1.84	-1.98	-4.25***	-4.21***
ter	-5.05***	-6.14***	-9.43***	-9.33***	-5.15***	-6.15***	-10.30***	-10.72***
lngdppc	0.20	-2.40	-6.55***	-6.51***	0.22	-2.55	-6.55***	-6.50***

Note: Significant at * = %10, ** = %5, *** = %1 level

In this study, the ARDL prediction module of the Eviews 10 econometric software was used and the selection was made according to the following model with a maximum of 6 lags constraints:

$$lntrmilpc = \beta_0 + \sum_{i=1}^{n} \beta_i lntrmilpc_{t-i} + \sum_{i=0}^{n} \beta_i lngmilpc_{t-i} + \sum_{i=0}^{n} \beta_i lnnatomilpc_{t-i} + \sum_{i=0}^{n} \beta_i ter_{t-i} + \sum_{i=0}^{n} \beta_i lngdp_{t-i}$$

ARDL (4, 0, 4, 6, 5) with the Schwarz Criterion value (-2.341619) was chosen among 14406 models. According to the Breusch-Godfrey serial correlation test, there were no serial correlations up to 4 lags in the selected model.

The bounds test statistics 5.501472 is above the significance level of I(1) bound(5.06), so there is a cointegration relationship between the variables.The cointegration coefficient of the model is -0.231445 and is between 0 and -1.

Long-term relationship coefficients between variables are shown in the table below:

Table 2. Long Term Coefficients

Variable	Coefficient	Std. Error	t
lngrmilpc	1.579854	0.849751	1.859197*
lnnatomilpc	1.440226	1.228621	1.172229
ter	0.198514	0.085023	2.334835**
lngdp	0.476351	0.372536	1.278672
Constant	-20.126733	17.071266	-1.178983

Note: Significant at * = %10, ** = %5, *** = %1 level

Results show that Turkey's military spending is in a long-term positive relationship with the military spending of Greece (at 10% significance level) and domestic terror events (at 5% significance level).

5. Conclusion

This study evaluates Turkey's military spending with economic and non-economic variables. ARDL bounds test results show that Turkey's military spending is in a long-term positive relationship with the military spending of Greece and domestic terror events. That is, an increase in the above variables results in an increase in Turkey's military spending in the long term.

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