

Political Economy of Tax Structure in a World Where Capital Globalized and Class Inequalities: Tax Analysis Aimed At Wage Earners in Turkey¹

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Abstract

As the most powerful reflection of the state sovereignty, taxes are important policy tools. Besides that taxes also reflect the political options of the states. The content and size of the government activities are forced to be narrowed by globalization of production and financial capitals. In recent world order, tax structures are organized by governments on behalf of the sovereign classes. This paper analyses how tax structures create inequalities. Examples from Turkey it will be examined by using analytical research methods with real time values.

Keywords: Political economy of tax, wage tax, class inequality, tax analyses, power of state

1. Introduction

The political basis that is/ should be the most significant indicator of a country's producibility of autonomous policies in national domain is tax politics. Because, while it is obvious that taxes are used as an instrument of active policy considering within national boundaries and especially in modern understanding of finance, policy makers have liberty to determine national priorities and implement policies via taxes in addition to other instruments. Alongside other instruments of politics, taxes have a distinct feature with regard to both its bindingness with the principle of articulated legality and representation of sovereignty power of state. Its sphere of influence is broad and is not depend on preference.

It is seen that while state performs its attribute of "being a state", albeit it presents in all public policies, it fulfills its functions that form the cause of its existence and their requirements more so with taxes. Because, it is the case that state is able to comfortably represent its attributes of being interventionist (interferer) and regulatory (oppressive) that are inherent in state due to characteristics of taxes. Therefore, even implicitly, there is a situation of structures, in which taxes are integrally represented, with respect to how they desire to reflect the mentioned features of state. Solving and analysis of the structure serve the revelation of information related to general policy and objectives of state by deciphering it.

Efforts of today's capitalist mode of production to remove all the barriers in front of circulation of capital at this last point in capital accumulation process, in other words "globalization" with its exposed name, alters characteristic features and idiosyncratic goals of state in this respect. Adjustment efforts for globalization of capital lead to re-tailoring of policy tools of states in accordance with new pattern. One of the most favorite products of this new creation is tax structures and policies.

In this study, first, causes of existence of state that underlie taxation and functions and the role that tax plays in it will be dwelt on. In the second section, common information related to the structure generated by taxes will be referred because it will be the general area of pursuit in putting forward the principle goal of study. Next, how wage taxes, which comprise the main theme of study, will transform in the case of globalization of capital and what effects it will spawn will be examined in the context of political economy. Realization of political economy analysis¹ in terms of Turkey will be carried out by scrutinizing general structure of wage taxes in Turkish Tax System.

¹ This article was published in **Globalisation: Dimensions & Impact**, ed. İsmail Şiriner, Lubomir Nenicka, IJOPEC Publication, London - UK, 2011, pp. 207 – 232.

2. State and the Basis of Taxation

No matter on what source or by which form of implementation it is obtained, being a revenue type that it “compulsory” characteristic outweighs the most and its necessity of determination by law constitute the most principal reasons for describing taxes as revenue in state monopoly. First, an analysis of state organization should be conducted to understand the fundamental logic of taxation. Today, perception of objectives ascribed to taxes in the form of a static and technical phenomenon in modern understanding of finance will thus turn into a dynamic questioning by scrutinizing state.

2.1. On State

In the most simple and objective form, state is defined as a political community possessing a certain area of land and organized under a government administration (Oney, 1978: 69). The reasons that brought out state and examining them are needed in terms of getting to the bottom of taxation. Sedentariness, which constitutes the beginning and advancement of social development, fundamentally underlies the concept of politics and its functions and also scrutinization of state.

It is possible to define the concept of politics as an endeavor to provide the necessary environment (conditions) for formation and advancement of a specific form (mode) of production in societal dimension (Erogul, 2002:45). The concept of mode of production, which is an abstract term, becomes concrete with integration of phenomena of relations of production and forces of production that describe means of production and forms of gathering of proletarians (producers), who use them (Pamuk, 1997: 15). In relations of production, social relations that shape endeavor of production vis-à-vis means of production with respect to situation of social strata is explained in general in the concept (Erogul, 2002:46) and the way of acquiring surplus from proletarians (direct owners of production) is explained in particular in the concept (Pamuk, 1997: 15). Politics is a concept comprising the upper conglomerate of state activities. It can be stated that the whole state activities is politics, because, state is the structure, which is engaged in politics (Erogul, 2002:42).

Ownership of private property over means of production introducing social classes paved the way for interclass conflicts. But, this conflict does not materialize in equal conditions; it persists with the superiority of hegemonic class possessing the property. The institutional structure that will endure the superiority of hegemonic class against proletariat, who comprises the majority, in both social and economic sense is state, which itself inherently became an occupation of the hegemonic class and that executes politics (Huberman, [1968] 1997: 26). Due to the fact that the current dominant mode of production, capitalism, rests on private property, all kinds of struggle against it bring out state resistance, because, as long as classes exist, state cannot be impartial and it is on hegemonic class’s side (Huberman, [1968] 1997: 26). State emerges from phenomena that describe the existence of classes and the situation that conflicts are irreconcilable (Lenin, [1917] 2003: 15). State is the state of economic power originated from private property and the class, which gets the dominant position in terms of exploiting and keeping proletariat under control and that state gives the hegemonic position politically (Engels, [1884] 2005: 201).

Diminishment of profit rates is a prominent problem in capitalism, because, this problem brings along political interventions intended for reversing the abovementioned diminishment via restructuring of capital and reorganization of labour process (Jessop, 2003: 36). The inferred outcome is that state is not only necessary for persistence of capitalism in the sense of sitting on the fence vis-à-vis class struggles, but also dimension and amount of interventions increasing in parallel to progressive spread of capital accumulation process are important (Jessop, 2003: 36). Proximity of state to the hegemonic class and specific objectives looking out for capital accumulation bring about the said interventions. In particular, they take accumulation into account for continuity of their political lives in forms of democratic

governance. Governments abstain to disrupt capital accumulation process in economy to ensure political support without losing resources in the long run (Jessop, 2003: 182).

2.2. On Taxation

Efforts of the hegemonic class to preserve its superiority and its own interests that identify with interests of the hegemonic class to a great extent constitute the principle emphasis of state in every politics and intervention it carries out. State which fulfills its pursuit of politics needs to get a share from social surplus product in the sense of financing owing to the fact that the abovementioned pursuit is not productive (Erogul, 2002:55). Basically, this share is acquired from taxes, which is a compulsory (coercive) method of financing that sovereignty power originated from its legitimate existence assures for state. Taxation represents a field emanating from institutional and administrative structure of state and incorporates to render some portion of individual incomes society's income by extracting from them (Stein, 1964: 28). Taxes can be employed as an intervention and regulation instrument in protection of relations of production on behalf of hegemonic class with their attributes such as compulsoriness and extent of its sphere of influence. For instance, it is observed that state enacts laws including tax regulations that crush proletariat for protecting interests of the hegemonic class (capitalist in our day) against the lower class (proletarian) (Eaton, [1949] 1996: 87).

Tax structures, in which taxes present as a whole, can be designed towards the function of preserving relations of production in favor of the hegemonic class. Due to the fact that relations of production contain the process of seizure of surplus in the form of, for instance in capitalist mode of production, acquiring of the difference between wage that the lower class, in other words proletariat, earns and the value of the product he/she produces by capitalist (Pamuk, 1997: 15), the selected tax type can affect and/or regulate the process. In capitalist mode of production, the value seized by the hegemonic class as the source of profit and remaining over the paid wage of proletarian is referred as surplus value (Durmus, 2010: 319 – 320). Capital, known as surplus value, can also be used in financing of various social public expenditures by taxing by state besides being a subject to other distribution channels (Durmus, 2010: 320). Taxation, as a mechanism aiming at redistribution of surplus value, possesses a key role in terms of public sector (Jessop, 2003: 201). It is stated that the fundamental principle of taxation is to ensure each tax payment to return to² taxpayers in a way that increases their capacities for capital generation in capitalist mode of production (Stein, 1964: 35). As capital generation is a phenomenon, which proletariat, who earn livelihood income by selling their labour power, cannot achieve, it is obvious that taxation is conducted in favor of the hegemonic class. Concentrating on wage taxes rather than capital levies and profits taxes leads to further exploitation of surplus value, which is already being exploited by capital class, by state. It can be argued that state shares surplus value with the hegemonic class by tax practice.

3. Tax Structure and Political Economy of Wage Taxation: An Analysis of Turkish Tax System

3.1. General Framework of Tax Structure

The concept that expresses the significance and relative shares of taxes, whose conditions of implementation, forms and features are designated by laws, within total tax revenue or national income is denominated as tax structure (Korkmaz, 1982: 21). Designation of taxes by laws reflects the normative aspect of tax structure. Alteration of tax structure due to factors that affect the system constitutes the positive aspect, in other words, actual tax structure. Due to the fact that each economic system has a tax structure compatible with its own operation (Korkmaz, 1982: 21), elements affecting selection of taxes and legal determinations can be sorted as economic systems, sectoral distribution of economic activities, economic openness and development level of countries because, generation of tax structure in the fashion of both

providing sufficient financing and reducing economic deviations during the process of economic growth is important (Hemming and Kochhar, 1993: 86). The financial objective of tax described as being able to adequately meet financing of public services offered by state via taxes (Turhan, 1993: 32) affect tax structure by selected types of tax and forms of implementation. Social elements that influence tax structure stem from social structure differentiations. Pursuits of social strata, which comprise elements of social structure, enabling implementation or non-implementation of various taxes affect tax structure (Korkmaz, 1982: 35). Factors like social powers and weights, socio-cultural structures, view of life and expectations and levels of education of social strata determine the extent of influence. Taxes and tax structure they create are inevitable to get affected by political elements because, tax politics, which is a part of economy politics, is executed by politicians (Walker, 1971: 374). It is an expected situation that politicians determine tax structure in a way that is most suitable for their political goals, administratively most advantageous and in a fashion that will cost minimum vote (Walker, 1971: 368).

3.2. The Political Economy of Taxation of Wage Earners: An Analysis of Turkish Tax System

The capitalist understanding of state turned into a form, in which interventionist state structure outweighs, in the wake of 1929-1933 global crisis in particular depending on the development of capital accumulation processes. In this context, it is seen that activities of state do not only consist of administrative elements, but also incorporate many elements from production to distribution of resources, redistribution to providing of economic stability and regulation of foreign economic relations (Sonmez, 1987: 5). Tax practices have an indispensable place in state activities shaped and varied as a result of various reasons. Income acquired from various resources makes up one of the subjects of tax given a place within tax structure that represents the whole of preference and regulations related to taxation. One of the elements of income incorporated by income tax is wages, which will also be covered in terms of our subject. The income that proletarians earn in exchange for offering dependent labour service by selling labour factor they own in private sector or public organization, at the behest of their employers or superiors in the context of laws and/or contracts is called wage³ (Bulutoglu, 2004: 45). In the context of study, political economy analysis of wage taxes depending on their state in tax structures and which effects they produce will be dealt with in terms of various titles presenting in goal function of state, political economy connection and tax technique. Analysis of wage taxes within Turkish tax system will be on the same line as well.

3.2.1 Evolved Goal Function of State throughout Capitalist Mode of Production and the Political Economy of Wage Taxes

The notion regarding that market mechanism had operated perfectly until 1929 Great Depression, ended in the aftermath of this crisis and superseded by a notion, in which a new policy called financial policy appeared that was built upon the necessity of public interventions for resolution of market failures and fundamentally shaped by three functions (Durmus, 2003: 31). The three functions of public sector that are attempted to be fulfilled via financial policies are allocation, distribution and growth- stability as Musgrave, their designer, put it (Musgrave and Musgrave, 1982: 6 – 7). Public interventions attempted to be carried out in the context of three functions basically formed the post-crisis exit strategies of the developed capitalist countries principally and afterwards, they were implemented by the underdeveloped countries struggling with permanent structural problems in addition to effects of the crisis (Durmus, 2003: 32). Today, they are still being used by countries with different level of development, depending on different reasons and towards different results attempted to be reached.

3.2.1.1. The Political Economy and Wage Taxes in terms of Distribution of Resources

The dominant element is labour supply in income tax predominantly consisted of wage taxes and reactions of individuals reveal the employment effect of tax depending on the design of tax structure primarily and secondly, demand elasticity of income, in other words, the effort that a person produces for acquiring an income (Edizdogan and Celikkaya, 2010: 22 – 23). Therefore, while other determinants are fixed, wage tax regulations within tax structure affect preferences to work or not to work (leisure time), put differently, bring income and substitution effects into existence. In cases when employment taxes are harsher than capital taxes as a burden and state do not tax profits as much as wages, shift of tax base and burden from labour to capital can augment employment, on the other hand, in case of that capital taxes are completely reflected upon wages, the employment effect can disappear (Kemmerling, 2009: 36). Albeit employment is a critical economic parameter, the practice of direction of the heaviest burden in taxation towards resources with the lowest capacity to avoid from taxes is based on the logic that taxation of labour is more efficient economically and politically in cases of when capital is quite elastic, however, shift of tax base to capital is a grueling attempt for politicians (Kemmerling, 2009: 36).

Politicians, who believe/would like to believe the notion that preference to work is independent of the increase or decrease of tax rates, can increase marginal tax rates as much as possible to attain public revenues that they desire, but, due to the fact that labour supply is not inelastic in all conditions, it can react to changes in tax rate (Prescott, 2005: 124). The extent of tax burden and social security contribution margin on labour is regarded as one of the most important reasons for formation and prevalence of informal economy owing to the fact that it causes labour costs to increase and changes work and leisure time preferences of the ones, who are employed, in favor of leisure time and as the gap gets wider between pre-tax labour cost and after-tax income in a formal economy, inclination towards the informal economy might increase to the same extent (Kızılot and Comaklı, 2004: 123).

Looking at the regulations of income tax aimed at wage earners in the Turkish tax system, they contribute to unemployment and informal employment in terms of tariff, tax collection and tax burden. The data of unemployment and informal employment in Graph 1 become explanatory when assessed with Graph 4. Another essential subject in terms of distribution of resources beside income and substitution effects is savings. It is stated that due to practice of income tax, people's decisions to save change depending on the level of income primarily and then, the resultant income and substitution effects (Edizdogan and Celikkaya, 2010: 58). An important point in this regard is that gains that people in high income group acquire may not always be subjected to progressivity and savings will not decrease (Edizdogan and Celikkaya, 2010: 58). Institutionalized savings attained via social security organizations are stated to decrease the negative effects of income tax on savings and investments to the minimum (Sener, 1996: 242). Therefore, the rationale that the policy of reduction of marginal tax rates for high income group is implemented in order not to diminish volume of savings does not always reflect reality.

3.2.1.2. The Political Economy and Wage Taxes in terms of Distribution of Income

Progressivity of the tax system and how the phenomenon of reflection, which denotes on whom tax burden eventually remains, developed give redistribution measure of income (Edizdogan and Celikkaya, 2010: 108). Tax policy designs that cannot grasp the importance of social preferences aimed at distribution of income are not appropriate, because, social preferences affect preferences aimed at tax structures (Ackert et al., 2005: 16). On the other hand, it is indicated that economic models that do not reflect social preferences have inaccurate directions towards the design of tax policy (Ackert et al., 2007: 499). It is seen in conducted studies that many people are willing to acquire lower income and support tax structures containing the reduction of advantages or disadvantages of income inequalities, because, individuals also care about divisional subjects as much as personal ones (Ackert et

al., 2005: 16; Ackert et.al., 2007: 498). Division structure regarding wage and profit in Turkey refers to how much attention should be paid to taxation if a just structure is intended. Owing to the fact that the understanding of taxation compatible with the world system adopts the general understanding that tax deficit is closed over wage by decreasing the tax burden on profit, the division problem maintains its severity.

3.2.1.3. The Political Economy and Wage Taxes in terms of Growth-Stability

Not all the taxes have the same disruptive effect on economic efficiency; consequently, tax structure can be an important instrument of growth objective (Widmalm, 2001: 201). If the demand elasticity of labour supply is really low, consumption taxes as well as a wage tax with proportional rate⁴ do not change personal spending preferences and the structure for circulation of capital; consequently, do not affect growth (Widmalm, 2001: 201). But, it is obvious that this structure, which will not affect growth, will not ensure a fair tax structure aimed at proletariat. It was inferred in some analyses conducted that reduction of wage taxes will provide an increase in GDP in the short run but only for it to be able to display the same effect in the long run, capital taxes should be reduced as well (Schule, 2010: 12). The growth effect in the short term stems from that lowness in wage taxes lessens marginal costs and it is claimed that a deduction is required in capital taxes as well in addition to wage taxes for decline of costs in the long term (Schule, 2010: 12). The aforementioned analyses and the emergent findings were only interpreted in the sense of efficiency, because, growth refers to a technical phenomenon. Results of reduction of capital taxes including that a possible emergent tax revenue gap will be closed over labour taxes, capitalist class will be favored or vertical injustice will be created in taxation were not stated.

It was observed that adjustments in tax structure included the diminishment of tax burden of the big capital to enable steering of savings to investments by lightening tax burdens of entrepreneurs, the loss of the attribute to ensure the just distribution of tax burden, solidification of reflection characteristics because of pervading of the taxation at source method, the increase of average tax burden with the beginning of intention of progressivity for wage-earners completely and contraction of liability base (Oyan, 1998: 15 and 34). When the course of personal income tax and profits taxes is examined in Graph 2, a 16.5% decrease in personal income tax draws attention during the period of 1975-1985. Tax share of wage earners are not included in the number, so, policies to increase savings started to be implemented with the tax mentioned above in respect of that period's characteristic. It should be stated that tax regulations were based on collecting tax from capital as least as possible in volunteer savings policy, which was the dominant understanding emerged as a necessity of the capitalist mode of production of the era (Kepenek and Yenturk, 2000: 255). The burden on profits taxes is not as much as in personal income tax. Nonetheless, it maintained its course in the same period. Its reason was that radical adjustments in profit taxes that contain interest gains before 1989, the year of financial liberalization, towards decrease was not made yet. It is seen that the burden on profits taxes aimed at grabbing a share from benefits of liberalization in 1989 decreased approximately 30% during the period of 1985-1995.

3.2.2. The Political Economy of Taxes and Wage Taxes

3.2.2.1. The Political Economy and Wage Taxes in terms of Tax Competition

Globalization led to tax policies to gain an international characteristic and transform into a structure that does not only concern countries that implement it but also economic units in all other countries (Meric and Ay, 2004: 303). It is stated that globalization brings along serious regulations towards a decline in tax rates by bringing about tax competition but no change towards a decrease is observed in tax revenue (Hamzacebi, 2009: 63 – 65). It is denoted that taxation includes the taxation of capital as long as it is related to structuring of welfare state, but approaching to the end of the understanding of welfare state with “globalization” process and opening of international markets changed this situation and taxation includes the taxation

of labour predominantly (Kemmerling, 2009: 75). Diminishment or elimination of tax burdens on the capital class via technical regulations or tax expenditures is the case in globalization, in which the fundamental objective is the encouragement of capital accumulation and usage within financial markets and lifting of barriers in this direction, and consequently, main actors of tax and financing are the proletariat (Eker, 2009:16). In terms of tax competition, it is possible to handle the effect of regulations between the proletariat and capitalist class carried out at the expense of labour in terms of tax burden with the comparison of tax pressure on this sector, in other words, the tax burden depending on the distribution of income. The structural change in taxation in Turkey with particularly the financial liberalization movement in 1989 is seen in Graph 3. It is observed that the pressure towards wage taxes is 2 units in average; on the other hand, the pressure of capital taxes remains under 1 unit in respect of the covered years. This situation demonstrates that that the ones, who acquired wage income, had to put up with tax burden quite above the share that they got from national distribution of income.

States tax financial assets such as profit, interest and rent revenue that are subject to competition and can move easily in the way that tax burden will be the lightest in the name of protecting tax competition, and even in some countries, a system called “the dual income tax”⁵ and that excludes the said incomes from completely unitary and progressive system is implemented (Onal and Temelli, 2011: 347). In terms of hindering the exit of capital regarded as a mobile factor, tax revenues are shifted to other factors including, first of all, labour that is a much more disadvantageous factor than capital in terms of avoiding tax (Eyupgiller, 2002: 39 – 40; Karakurt, 2005: 152). Performing an analysis of tax structure in terms of elements that form the origin of taxation becomes explanatory regarding preferences. Considering Turkey, a decline in the rate of non-wage personal income and corporate tax, on the other hand, an increase in the share of wage taxes and value added tax in the nature of indirect tax are seen between 1980 and 2008 in the context of tax shares in the tax system in Graph 4. The structure can be interpreted as that the burden of classes, which are strong in the sense the ability to pay taxes, has been diminished, on the other hand, both direct and indirect tax burdens have developed at the expense of proletariat. Tax revenue losses brought out by tax regulations carried out because of tax competition bring along the increase of tax burdens on labour in the context of factor mobility (Sarac, 2006: 185). Policy preference aimed at the shift of tax burden to the labour factor causes the escalation of informal employment and unemployment and then, brings about the further increase of tax burdens on the formal labour (Engin, 2006: 28 – 29).

It has been started to think that traditional mechanisms of the distribution of income materialized through progressive taxes and transfers become inefficient in Europe in particular because of globalization and economic mergers. Albeit the principle of justice is a critical goal of tax systems, three main reasons of the notion that progressivity does not create a change in the distribution of income can be mentioned (Silva, 2002: 203 – 204):

- i)** The first one is the increment of high-skilled labour and international circulation of capital with globalization. High tax rates create a strong motive towards the shift of tax base to countries with low tax rate. While European states increase tax burdens on labour, which is less mobile, they respond to increasing movements of capital via reduction of capital taxes.
- ii)** The second one is that more efficiency is needed. Competition that results from globalization and economic mergers pressurize governments regarding lowering high taxes and the costs of inefficiency of other public policies.
- iii)** The third one is that more demand has replaced the equality objective that the tax system tries to reach. A wide variety of tax incitements serves this purpose.

Tax reform regulations have a distinct place in construction of tax competition in a way that will especially ensure and facilitate capital mobility. Tax reform is defined as a construction process of taxes within a “market economy compatible”, “efficient”, “simple” and “fair” system alongside being a financing instrument of public (Demirli, 2011: 7 – 8). It draws attention that the principle goal of reforms is the compatibility to market economy in taxation. Therefore, it will not be difficult to estimate that within the framework of which criteria protection of the principle of justice in taxation will be carried out. Even though useful aspects in reforms appear in every study in this subject, providing of a structure that preserves the rights of the proletariat in general is dubious. When implementation summaries in five countries that executed tax reforms in different periods between 2001 and 2008 are examined in the analysis conducted by Demirli (2011: 231 – 232), some indications are encountered regarding that the principles of justice and equality in taxation were protected quite limitedly for the labour factor compared to capital.

It is stated that global tax reform regulations are constructed by international financial institutions such as IMF, the World Bank and regional development banks in terms of protecting same type of goals and take into consideration the principle objective of strengthening of neo-liberal policies (Fjeldstad and Moore, 2008: 238). Whenever a depression is expressed in the dominant mode of production (it is ironic that crises will be integrally and necessarily experienced in the capitalist mode of production) or adjustment of the underdeveloped or developing countries to the system is required, tax reform and regulations come up. Even though it is stated in the mentioned reform regulations that increases in tax revenue will be provided from the ones, who should pay the tax, (according to the criterion of the ability to pay) and thus, reform will diminish inequality, no sign has ever been come across in the studies conducted that the burden on the low income proletariat lessened (Fjeldstad and Moore, 2008: 244). Simplification of the tax system and improvement of horizontal justice are one of the secondary aims of tax reforms in many countries. Whereas, the philosophical basis of tax reform movements is the efficiency or tax neutrality (Smatrakalev, 2008: 400). For instance, China aimed at simplifying personal tax system by taxing all income types at the same rate in the name of disrupting the effort of the ones, who acquire high income, to tax some portion of their incomes at a lower rate (and profiting from arbitrage) (Sarikas, 2008: 430).

3.2.2.2. The Political Economy and Wage Taxes in terms of the Political Structure of Taxation

The opportunistic behaviors of policy makers to alter the structure of taxation in a manner required by institutional and political conditions and hence, to obstruct the distribution of tax burden in the fashion that will augment efficiency and welfare can be the case (Berksoy and Demir, 2004: 513). Experiences demonstrate that tax-benefit structures in tax systems are shaped by political powers rather than protecting well-designed social objectives (Spadaro, 2008: 16). When the previous periods examined, it is seen that legal rates of wage taxes changed towards increment many times but never fell. The answer of why rates related to wage taxes go up a lot more easily in comparison with income tax is that avoidance from the abovementioned taxes is partially fewer than the others. The efficiency of each collected unit of these taxes is high as well. Inefficient taxes restrict governments. In this respect, it is not coincidental that politicians in the major states of Europe rely on relatively efficient and broad-based taxes such as consumption and wage taxes (Mulligan, 2005: 95 – 96). However, while general income and consumption taxes are complementary political strategies, it should not be forgotten that taxes collected on wages are political prices (Kemmerling, 2009: 17).

The endeavor for lowering direct tax burdens of the big capitalist class pursued in Turkey coordinated with international policies naturally entailed the increase of tax burdens of other sectors, the indirect tax burden shifts as of 1985, which was the year when value added tax

was implemented, and the direct tax burden shifts aiming at the sector of wage earners as of 1987 began to be experienced (Oyan, 1991: 9 – 10). As seen in Graph 5, the effects of the said burden shifts during 1988-1992 can be observed. In the wake of this period, there was a considerable difference towards increase for indirect taxes over direct taxes in terms of the share in total taxes. Factors such as concentrating on indirect taxes in financing of the deficit by taxes, the boost in consumption via policies aiming at overcoming the crisis and revitalizing the economy and the tax share of increase of import played a significant role in this increase for 2006-2010 period in particular.

If taxation of wage earners is easier than taxation of the income obtained from profits, then two possible behaviors of policy makers are the case (Kemmerling, 2009: 81):

- i) The first one is to tax labour a lot harsher than capital by using elasticities.
- ii) The second is to implement labour market regulations by boosting syndicates' bargaining power for wages and to engage in endeavors to acquire further tax revenue from wages increased in this way. This behavior can then create a situation desired by both sides with employers being in a better position due to less taxation of capital, on the other hand, syndicates making a progress in wage increase.

In the present tax practices, even though the exemption of low income makers from taxation to a certain degree is the case due to that they carry considerable tax burden in tax systems, in which their taxation are regarded as unfair and being an impairment to public welfare, politicians are observed to get concerned about re-election thinking that motivations of the ones exempt from tax to vote or include in the political system in other ways will disappear (Dewit and Steinmo, 2002: 174). Flexibility of various income sources in taxation is a function of tax policy and differences in tax rates (Castanheira et al., 2009: 8). Additionally, tax policies closely pertain to election flexibilities of voters (Castanheira et al., 2009: 53). The progressive tax systems have an impact that ensures the division of income from economically well-offs to economically ill-conditioned and therefore, the electorate expresses that they prefer the implementation of the aforementioned systems with their votes in forms of democratic governance (Alt et al., 2008: 18). The said preferences bring considerable cuts in marginal rates of income tax to the fore, but whether policies in this context will last or be realized to what extent is a political issue and it is hard to tell anything beforehand (Alt et al., 2008: 52). There are political costs in question when political gains that the ones provide, who benefit from changes in tax structure, are lower than electoral penalties given by the ones, who lose in the mentioned reforms (Geys and Vermeir, 2008: 302). OECD governments tend to avoid pre-election changes in tax structure. This situation demonstrates a belief among politicians regarding that tax structure changes that will diminish popularities of politicians may cause their existing political statues⁶ to change (Geys and Vermeir, 2008: 302).

3.2.2.3. The Political Economy and Wage Taxes in terms of the Working Class Regulations

The balance brought into existence by social classes⁷ facing each other with the same power in a country can produce socially optimal policies, however, the worst scenario in this sense is that some social classes or state (which is intended here the state due to the capital class and idiosyncratic goals or partisanship of the capital class) possess the power to influence policies without a counter-force (Ehrhart, 2009: 5). Hence, proliferation of lobbies, chambers, syndicates or civil society associations that protect conflicting policy goals in democracies can inhibit various political impediments that can arise in case of the existence of a single unit having a privileged impact on the existing politicians or the state declaring the policy priorities by itself (Ehrhart, 2009: 5). The prolateriat and the capitalist class and also the state, which emerges as a unit of capital class albeit its special position, come face-to-face with each other in class struggles. In particular, the regulation and preservation of personal rights of the prolateriat by, first of all, constitutions and laws remaining in the line of duty of state

incorporate a serious irony. It is not surprising that there are also developments against the working class in the struggle in tax regulations and practices.

Taxation of the income that proletarian with a more fragile economic power obtains is more frequently resorted to than taxation of capital as stated in the previous titles. Because, for example, when high income households with broader financial opportunities get a service of financial consultancy that they can economically afford more easily for investment tools to which they direct their savings, their tax burden decreases and pervading of tax-exempt savings instruments offered in the aforementioned services increases the tendency of low and medium-income individuals, who cannot easily lessen their tax burden because of the resultant tax gap, towards wage taxes (Gale, 2005: 40). Avoidance of economically strong classes from taxation in various ways reverses the practice of raising marginal tax rates to be able to ensure a just tax practice in favor of the working class and superimposes the tax burden over proletarians (Durmus, 2003: 250). Realization of taxation and collection in the moment when income is acquired, in other words the method of tax deduction at source, eliminates the organic link between effective tax burden and perception of the burden and this method is somehow mostly intended for the prolateriat. Albeit it is the easiest and most effective method in tax collection in terms of state, the way to ensure taxpayers to be more flexible regarding costs that state imposes on them is the removal of tax deduction at source in terms of wage earners (McGee and Yoon, 2008: 50). A situation that damages the principle of equality can arise due to the difference in the time of payment of tax between declaration-based taxation and withholding tax (Celik, 2001: 65). Proletarians, who acquire wage income, the tax of which is deducted at source, being far from opportunities such as installment or assessment until paying the tax that the ones, who pay tax with declaration, have creates inequality (Akbeý, 2011: 295).

Determination of the collection form of tax had also its share of tax system regulations shaped by economic policies of 1980s. Tax collection at source became the primary implementation by tax regulations in 1986 for the first bracket in tariffs, in which the taxpayer group is dominant, and led to the reversal of the discrimination principle and the augmentation of income inequality towards the working class (Oyan, 1989: 153 – 154). In respect of the average number of taxpayers between 2001 and 2010, the number of taxpayers subjected to withholding tax constitutes 56% of the total. It is obvious that the majority of the taxpayer group incorporated by the abovementioned ratio is the members of the working class earning low-income wage. In a nutshell, unfair structure is maintained.

3.2.3. The Political Economy of Wage Taxes and Tax Technique

3.2.3.1. The Political Economy and Wage Taxes in terms of Progressivity

Looking at the historical development of income tax, it is seen that it first began to be implemented in the United Kingdom in 1788 to meet costs of war and abolished in 1815, afterwards, it was re-implemented in 1842 due to the increase in indebteding and Chartists, which represented the powerful working class movement in that area, stated the need for its progressive implementation with respect to income (Marx and Engels, [1848] 2005: 217). Subsequently, the progressivity of tax was also observed to appear in the Communist Manifesto (1848) with the statement “a harsh progressive tax” (Marx and Engels, [1848] 2005: 141). Tax systems, where there is a considerable difference between the average and marginal tax rates, are progressive tax systems, the share that state receives from the income acquired in exchange for work is referred to as the average tax rate and state’s share from the income attained from extra or additional work is referred to as the marginal tax rate (Edizdogan and Celikkaya, 2010: 34). It is needed to ensure progressivity that the average tax rate should increase in parallel to rise in income but the marginal tax rate should be higher than the average tax rate, which the marginal tax rate is the element that affects work motivation (Edizdogan and Celikkaya, 2010: 35).

Financial systems, in which the distribution of real income is more egalitarian, are called as “redistributional” and based on the low income group benefiting more from what it pays as a tax and the high income group contribution more from what it gets as a benefit (Buchanan, 1960: 18). In this sense, progressive taxes that ensure more egalitarian distribution of income among individuals come to the forefront (Buchanan, 1960: 19). It came along in conducted studies that majority of individuals participated in researches preferred the progressive tax structure within the framework of the notion of equity even though they are familiar with their pre-tax income before a voting to be carried out (Ackert et al., 2004: 18). Nevertheless, in a case that a vast majority of government expenditures is spent towards protection of property rights of affluent class, even a progressive tax structure is stated that cannot protect financial system from an increase in real income inequality (Buchanan, 1960: 20).

Carrying out taxation according to the ability-to-pay principle or financial capacity principle entails the determination of rate structure of different taxes. Tax structure should be progressive as tax burdens are determined according to the ability to pay (Sener, 1998: 77). Implementation of proportional or flat taxes produces relatively harsher sacrifices in terms of individuals with low-income and in progressive taxation, individuals need to pay taxes from portions of their income to which they ascribe less subjective value (Stuart, 1964: 48 – 50).

One can achieve progressivity, which has a significant function in terms of the principles of equality and justice and the principle of efficiency as it effects the decision to work in low-wage branches of work in particular due to the fact that it shifts tax burden to people with high income, in two ways (Kemmerling, 2009: 20):

- i) The first one is to make indirect tax expenditures in the form of deductions or exemptions towards low income makers.
- ii) The second one is to reduce marginal tax rates directly. It can be argued that the indirect way that affects labour participation to low-wage jobs is more effective and marginal rate regulation is intended for higher wages and working hours.

Wage taxes can be progressive from low to middle-level income and taxation in similar levels can be carried out due to horizontal equality. But, the more important thing is that providing of progressivity when income level rises and proper regulation of loopholes in tax laws and exemptions that benefit wealthy people are required (Kemmerling, 2009: 20). The state of increase in tax rates in response to rise in income is denominated as the rate of tariff increase in progressive tax regulation and if an impediment like inflation that disrupts all parameters in economy is not taken into account, the abovementioned rate generates an unfair structure against low-income groups by becoming really high in low-income levels and, on the contrary, really low in high-income levels (Bulutoglu, 2008: 388).

As seen in Table 1, regulations for direct taxes within the tax structure, especially in the tariff structure of income tax in Turkey were realized in parallel to precautions aiming at favoring of the capital class after 1980. An understanding of tariff regulation was the case, which taxed low-income levels proportionally and high-income levels at a lower rate due to the width of tariff brackets. When the income tax tariff applied during 1960 and 1980 is examined as seen in Table 1, it is seen that progressivity was intensely implemented in terms of the lowest and highest rates and the practice of rate of the first bracket with 40% in 1981 disrupted progressivity to the disadvantage of low and medium-income taxpayers due to the fact that these sectors comprise the majority in this range (Demirli, 2011: 45). It is observed that, there were significant falls in the lowest and highest rates and the number of brackets from 1982 until the practice of final period. The number of tariff brackets was dropped to 6 beginning with 1986 in particular, the difference in extent and the highest marginal rate were reduced, but, utilization was again intended for the high income group (Oyan, 1989: 149 – 151). The number of brackets fell to 4 as of 2005 when assessed with the practice of final period. Keeping the number of brackets low and tariff brackets broad in the existing tariff structure in

Turkey cannot capture increases in income in a just way and can lead to erosion in tax revenue collection in this respect (Saracoglu, 2000: 87).

Although the lowest and highest rates of tariff and the number of brackets were reduced beginning with 1999 till 2006, a difference with five points each among rates applied to wage and non-wage incomes was created by seeking to preserve the discrimination principle due to just taxation. The verdict that the Supreme Court adopted as a result of an objection and lawsuit filed left its mark on tariff regulation in 2010. The tariff structure differentiated between wage and non-wage incomes for the amount of tax assessment essentially corresponding to the third bracket by a regulation adopted by the administration against the verdict of the court without any change in rates.

3.2.3.2. The Political Economy and Wage Taxes in terms of Tax Expenditures

It can be denoted that tax expenditures consist of exemption, exception and deduction practices implemented for economic, social and financial reasons. To be able to carry out taxation according to the ability to pay (economic capacity) as much as possible, it is expressed that people with low income, especially the ones acquiring wage income, should be completely exempt from or just from specific taxes such as income tax (Wagner, 1964: 14). Owing to the fact that added value and sales taxes hinder the decrease of tax burden on imperative needs, it is specified that mostly people in the low income group can be protected from tax raises via lessening of wage taxes rather than the exemption of food and clothing from tax (Graetz, 2005: 60). It is observed that safety functions of wage taxes diminish the disruptive impacts of taxes on employment (Kemmerling, 2009: 35).

Defects in tax design that brings about a difference in economic structures among countries can wear down equality, efficiency and administrative conveniences, for instance, exemptions for the benefit of individuals with high income render taxes regressive, lead to tax avoidance and reduce incomes (Cubero and Hollar, 2010: 33). Tax-exempt areas brought to light by exception and exemption practices that appear in tax system can be preferential and reduce burdens by creating informal areas in terms of the ones, who frequently benefit from these opportunities (Onder, 1998: 119). Even though tax system is considered to be regressive individually⁸, the combined effects of taxes and well-designed social expenses can help poor people to raise their income (Cubero and Hollar, 2010: 34). One of the situations that cause tax burden to increase to the disadvantage of wage earners compared to capital gains taxes in tax deductions that make up one of tax expenditures is that while amortization and depreciation of durables are reduced from capital gains as an expense, there is no such deduction that meets the wear and tear of labour power of workers for acquire of income (Bulutoglu, 2004: 51). Tax expenditure regulations aiming at decreasing a certain amount or rate of tax liability of every taxpayer can exhibit an unjust structure in terms of advantages for upper income group and negatively impact the distribution of income (Durmus, 2003: 271; Turhan, 1993: 217).

4. In Lieu of an Evaluation and Conclusion

We come across taxation as an action that is carried out with regard to the sovereignty power of state and affects all economic units in economic sense and all individuals in society constituting economic units in various ways in social sense as well. Taxes, which arose with their participation in financing of services offered in the beginning with their transformation carried out in modern times and then, turned into a revenue on which state had a right to use virtually independent of society, became an instrument possessing considerable economic, social and political impacts.

This study contains an examination of tax structure in the context of the role of state in interaction between social classes and its structure rather than a research on positive tax analysis. Scarcity of resources and abundance of needs rendered the ownership of scarce resources or extracting of products produced with these resources from producers a desired

element in every period. Different means of production, forces of production and modes of production generated by them have existed from the primitive times to modern times.

Capitalist mode of production is a system, whose existence is based on taking away production realized via scarce resources from its owners and thus, achieving accumulation. The more the capital accumulation gets, the higher the profitability and continuity of the capitalist system become certain. Capital accumulation hinges upon the increase in difference between the value assigned to a commodity manufactured by the ones, who produce, and labour cost paid to the producers. This difference is called surplus value. Surplus value is the profit of capitalist and subjected to taxation with labour cost.

Super-social identity of state as an organization that gained the sovereignty power over society, which formed itself, led it to develop the reflex to stand by the hegemonic class in society, that is, the capital class and even become a hegemonic class itself in many aspects. The existence of the phenomenon of social class brings about that state cannot be impartial towards classes and act in favor of capital in general even in a very significant activity like taxation concerning the whole society. It is seen that state prefers to increase tax burden on the class that has to use resources, in other words the working class, rather than the owners of these resources that it needs for the continuity and development of its existence.

The capitalist mode of production coming to a certain phase in historical process in terms of accumulation brought along to go beyond borders in the pursuit of finding lucrative areas and the phenomenon of capital spreading out the whole world. Mobility of capital converted states into units that enable global capital to move freely during “globalization” process revealed as a savor of all underdeveloped countries. While states, which achieved capital accumulation, produce policies to make their accumulated capitals use, opportunities of countries in search of the need for resources for growth and development to conduct independent policies for the benefit of their countries are taken away from them, albeit they attach importance to the division of welfare in society’s interest. The developed or underdeveloped countries employ all policy instruments in their hand for free movement of capital and taxation is one of the most frequently used instruments in this regard.

In this study, how the working and capitalist classes are subjected to discrimination via tax policy regulations was dealt with in different angles. No factor except labour acquires income with its own effort, but, labour is subjected to the highest tax burden within its income acquired due to class characteristics. As seen in the political economy analysis conducted in the context of taxes applied to wage incomes in terms of Turkey, tax pressure on wage incomes is of considerable extents. Preferential taxation towards capital income and tax concessions that enable to lower taxable income of capital has a share in this situation. Even though differences in economic power of the capital factor and resources it has are taxed at higher rates in comparison with labour, it does not relatively increase its burden. Even the difference in declaration and form of payment of tax can change tax burden. The technique to collect wage taxes automatically in the moment when income arises eliminates both tax consciousness and reaction against tax and also, opportunities to be exempt from taxes. Capital gains are taxed with taxpayer’s declarations barring exceptions and the collection period is the following year after income is acquired. The endeavor to attain income is fewer, the power of income acquired is higher and taxation is less wearing.

In representative forms of government, mutual struggles of members of social classes can assure gains such as fair division and taxation although it can be tough in some situations. The duty to satisfy income inequalities and regulate elements, which make the burden heavier albeit the effort the working class displays when acquiring income is considerable, in favor of the prolateriat falls on the social state, in which the participation of labour organizations and their representatives is of considerable extents. Awareness of the prolateriat expanding and

acting together as a class constitute the most essential gains that will facilitate to generate the pressure that can eliminate unjust tax regulations and to raise welfare.

Notes

¹ In this study, preference to conduct political economy analysis is of great relevance to agree with the notion that policies that state perform via taxes can be examined with the mentioned analysis method in time, place and human dimensions and under the broadest and scientific point of view. Political economy that examines development of relations of social production and laws that affect the conditions of production, distribution and transformation of commodities in different stages of development also has a structure distinguishing changes to place and time. Besides, class characteristic of its resultant outcomes constitutes Raison d'être of science (Bilgi, 1992).

² Ricardo (1817) remarks that wage taxes will have the same influence with profits taxes because; it reduces the profit margin of capital due to the fact that it increases wages (Ricardo, [1817] 1997: 191). Consequently, it can be said that wage taxes are considered with regard to efficiency and productivity principles rather than the principle of justice.

³ In the article 61 of the Income Tax Law, wages are defined as “money given to the ones, who are subjected to an employer and work as being affiliated to a specific place of employment, and benefits that are provided with valuables and can be represented by money” (Turkish Tax Laws as a Whole, 2010: 65).

⁴ In a study performed, the progressive tax structure in wage taxes negatively affects growth due to that it creates substitution effect (Widmalm, 2001: 212).

⁵ The dual income tax system is a system that is practiced in countries like Sweden, Norway and Finland, taxes capital incomes at a low and fixed rate but taxes wage incomes at a progressive structure (Onal and Temelli, 2011: 347).

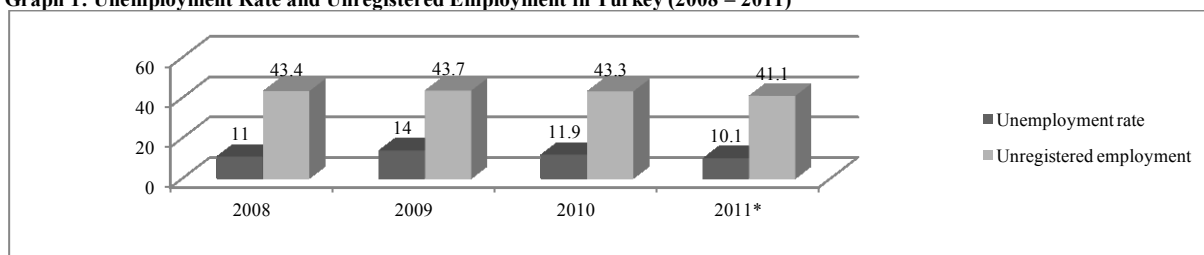
⁶ In studies performed, it appeared that financial policy is a vital determinant of the election rating (Geys and Vermeir, 2008: 314).

⁷ The author uses the word “private interest group” with a lot more neo-liberal market emphasis instead of “social classes”. In our study, the “social classes” statement is preferred because it underlines better and reflects the relationships of power materialized throughout the picture better.

⁸ It was found out in the study conducted that non-individualized tax plans are susceptible to the level of social responsibility (Long and Stahler, 2010: 13).

Appendix 1: Tables and Graphics

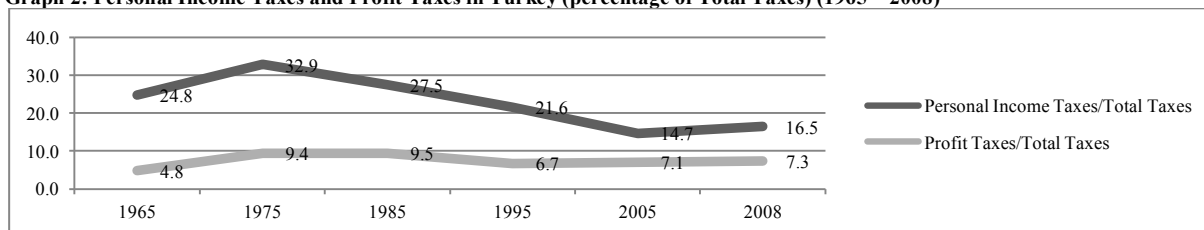
Graph 1: Unemployment Rate and Unregistered Employment in Turkey (2008 – 2011)



Source: State Planning Organization, Turkish Statistical Institute, Revenue Administration, own creation.

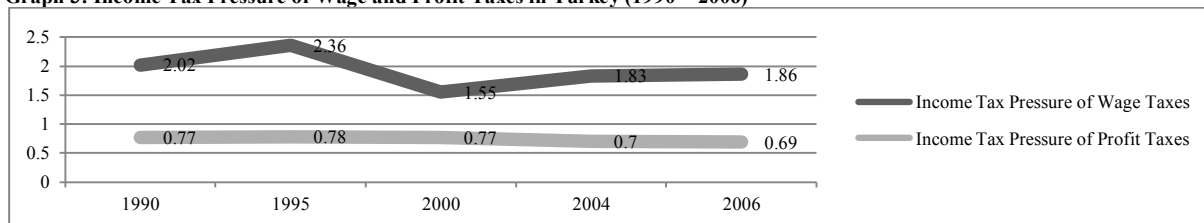
Note (*): It is the data for the first three months in 2011.

Graph 2: Personal Income Taxes and Profit Taxes in Turkey (percentage of Total Taxes) (1965 – 2008)



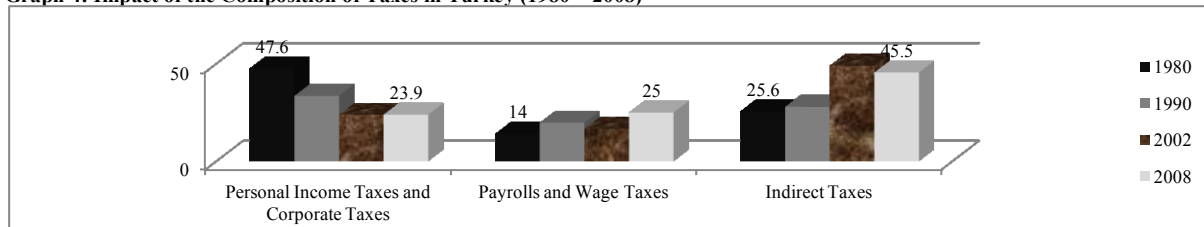
Source: OECD, Revenue Statistics of OECD Member Countries, Paris, 2010

Graph 3: Income Tax Pressure of Wage and Profit Taxes in Turkey (1990 – 2006)



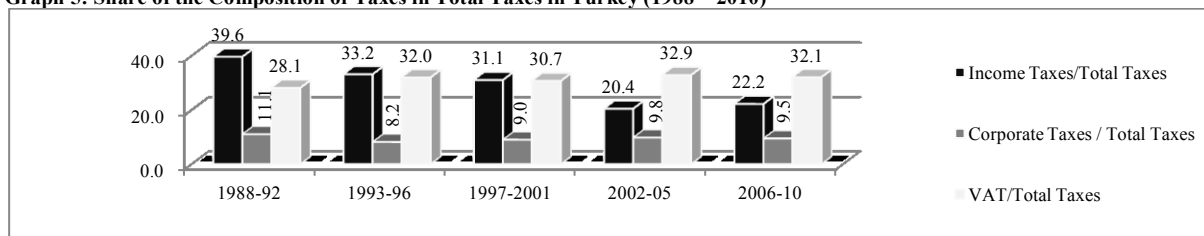
Source: State Planning Organization, Turkish Statistical Institute, Revenue Administration, own creation.

Graph 4: Impact of the Composition of Taxes in Turkey (1980 – 2008)



Source: OECD, Revenue Statistics of OECD Member Countries, Paris, 2010

Graph 5: Share of the Composition of Taxes in Total Taxes in Turkey (1988 – 2010)



Source: State Planning Organization, Turkish Statistical Institute, Revenue Administration, own creation.

Table 1: Details of Income Tax Tariffs in Turkey (1961 – 2011)

	The Lowest Rate		The Highest Rate		Number of Brackets
	Wage Income	Non-Wage Income	Wage Income	Non-Wage Income	
1961 - 62	10	10	70	70	7
1963 - 80	10	10	68	68	10
1981	40	40	66	66	7
1982	39	39	65	65	7
1983	36	36	65	65	7
1984	30	30	60	60	7
1985	25	25	55	55	7
1986 - 93	25	25	50	50	6
1994 - 98	25	25	55	55	7
1999 - 2004	15	20	40	45	6
2005	15	20	35	40	5
2006 - 2011	15	15	35	35	4

Source: Demirli, 2011: 45.

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