Financial Liberalisation and Composition of Tax Revenues in Turkey

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Abstract: Restructuring of the role of the state in line with the neoliberal discourse has critically affected fiscal policies. The aim of this paper is to evaluate the composition of tax revenues in Turkey since financial liberalisation. Capital account liberalisation and concomitant practices of deregulation had significant effects on tax policies. Throughout this process, which has also enabled a favourable environment for financialisation, the design of the tax policy have been in favour of capital and eventually the burden of adjustment following the severe crises for the last two decades fell particularly on labour incomes. Therefore analysing the tax policies and the distribution of the tax burden will provide an answer on how the costs of these crises have been socialised.

Keywords: Financial liberalisation, tax revenues, fiscal policies

Türkiye’de Finansal Serbestleştirmeye ve Vergi Gelirlerinin Bileşimi

Özet: Devletin rolünün neoliberal söylemle uyumlu olarak yeniden yapılandırılması maliye politikalarını ciddi biçimde etkilemiştir. Bu çalışmanın amacı; finansal serbestleştirmeye sonrasında Türkiye’de vergi gelirlerinin bileşimini incelemektir. Sermaye hesabının serbestleştirilmesi ve eşlik eden kuralsızlaştırma uygulamalarının vergi politikaları üzerinde önemli etkileri olmuştur. Finansallaşma için elverişli koşulların oluştuşurduğu bu süreçte vergi politikaları sermaye lehinde düzenlenmiş ve özellikle son yirmi yılda yaşayan şiddetli krizlerin yükü emek gelirleri üzerinde yoğunlaşmıştır. Dolayısıyla vergi politikalarının ve vergi yükünün dağılımının incelenmesi, krizlerin maliyetlerinin nasıl toplumsallaştırıldığına ilişkin bir cevap verecektir.

Anahtar sözcükler: Finansal serbestleştirmeye, vergi gelirleri, maliye politikası

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Introduction

Since the early 1970s there occurred a paradigm shift, that basically subordinated the concept and practices of development to the concept and practices of efficiency as required by the needs of financialisation process and compatibly liberalisation policies took effect as the major policy option. Minimising economic role of the state and the concomitant surge in public debts have been crucial, particularly via their impacts on fiscal policy design (Arıkboğa, 2013: 64); therefore, on the composition of tax revenues. The burden of the debt and the consequent crises fell particularly on labour incomes either via retrenched social expenditures or increased taxes since capital could easily flow to “more friendly” economies as a result of liberalisation and deregulation practices (Altvater, 1997: 66). Diwan (2001), asserts that labour incomes have a critical role in overcoming financial crises as their shares seriously affected following a crisis. Cornia (1999), emphasises on the alteration of economic policies during liberalisation and globalisation process as a result of which inequality has increased; accordingly, decline of wage shares over the course of a recession affects income inequality particularly in developing countries. Therefore, as a result of the threat of unemployment following a crisis and the increased capability of capital in terms of tax avoidance via accelerated mobility, the burden of adjustment detrimentally effected labour incomes (Arıkboğa, 2013: 64-65).

Since the financial liberalisation capital flight issue has been perceived as a serious problem to cope with and effected all the economic policies. It has been claimed by the advocates that the implementation of high marginal tax rates, particularly on capital gains or the rise in real wages would create distortions and result in inefficient use of factors of production. As this has been the motto of the last three decades, the state has been left with restricted room for manoeuvre and left behind its functions to act as a developmental state and to pursue objectives that are related to long-term growth.

Throughout the process of financial globalisation the so-called emerging markets have been affected in a variety of ways and confronted with almost the same prescriptions. Peripheral integration of the developing countries with the financialised capitalism and volatility arising from short-termed and in most cases

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1 See also The World Bank, 1995: 62-63.

2 A well-known claim of the mainstream approach that relates the problem to the rigidity of wages and inflexibility of labour markets was not announced during the recent crisis of financialised capitalism; Fine (2012: 51) points out that the financial turbulence was the common point with the previous episodes however the “usual suspects” could not to be blamed for the recent crisis.


4 For a critical view of this approach please see Morais et al., 1999: 9-14 for the Brazilian case; Stiglitz, 2003 for cases of various “emerging markets”.

speculative capital flows have been in close relation with each other and effected the economic policy design accordingly in these countries.\(^5\)

There is an extensive literature on the magnitude of the effects of financial liberalisation in the developing world.\(^6\) Plenty of variables have been under concentration, including speculative capital flows, banking crises, regulation/deregulation issues, poverty and inequality. However, the effects of financial liberalisation on the composition of tax revenues have been emphasised relatively less.

The scope of this paper is limited to tax revenues; therefore, a holistic analysis of the budget, including both public revenues and public expenditures will not be provided. Hereby it is noteworthy that the budgetary policy is not mere a technical issue and the budget is not exclusively a document displaying the revenue estimates and the expenditures of the government for a definite period -usually a year- yet it is more than a technical document reflecting conflicting interests within the society. The analysis of the budget is important because it gives significant insights regarding the outline of fiscal policies to be implemented for a particular period. (Pınar, 2005: 48).

The aim of this paper is to analyse the financial liberalisation process and the composition of tax revenues in Turkey. Accordingly, practices of financial liberalisation, exposition to various crises and their impacts on fiscal policies in general and taxation policies in particular will be examined. The debate between efficiency and equity concerns will be explored regarding the tax revenues in Turkey and the regressive structure of taxation policies will be analysed via mainly the distribution of the tax burden. It will be argued that as part of the neoliberal economic policies, financial liberalisation process has paved the way for financialisation and taxation policies were designed in harmony with the requirements of this process.

### The Effects of Financial Liberalisation, Financialisation, and Subsequent Crises on Fiscal Policies: An Overview

Restructuring of the state throughout the financialisation of the accumulation process has been a crucial debate in political economy. Increasing regulations regarding the financial deepening process, internationalisation and depoliticisation strategies in monetary and fiscal policies -via rules based policies- and socialisation of the losses of the financial sector have been the primary indicators of financialisation of the state (Güngen, 2015: 35).

\(^5\) See Balkan and Yeldan, 2002.

Regarding the eventual impacts of financial liberalisation and financialisation process on fiscal policies two interconnected stages can be distinguished. Initially, capital account liberalisation and deregulation practices have paved the way for a favourable environment for financialisation which had its effects on potential government revenues and immediately after when the financial instability and the crises unfolded public expenditures were increased meanwhile tax revenues declined due to the recession, the outcome of which was rigorous austerity policies. Therefore, increasing opportunities for tax avoidance throughout the liberalisation and deregulation practices can be viewed as an indirect support while the implementation of austerity policies throughout the socialisation of the costs of the crises can be viewed as a direct support in favour of capital (Arıkboğa, 2012).

Underlying concepts of this process have been sustainability of public finances, fiscal discipline and austerity policies, broadening the tax base, efficiency, international tax competition - which has been effective in shifting of the tax burden on labour incomes in order to increase competitiveness and attract capital inflows. The fiscal crisis of the state has been always on the top of the agenda with an extensive focus on sustainability of public finances without elaborating causes behind the deficit.

Neoliberal restructuring of the state had significant effects on fiscal policy design via the extensive focus on fiscal discipline and rules based fiscal policies by means of which austerity measures were rationalised. Throughout this process, discretionary fiscal policies of the Keynesian period were criticised for the surge in budget deficits and public debts. Finally, rules based fiscal policies have been advocated and implemented prevalently with the justification that the sustainability of public finances depended on strict commitment to these policies. However, rules based fiscal policies have not been neutral in terms of both capital and labour (Arıkboğa, 2011: 21). In other words, austerity policies under the concepts and practices of fiscal discipline or tight fiscal policies should not be regarded as indispensable policies of the liberalised era as insisted by the prevailing arguments; but rather as a significant part of state restructuring in compliance with the requirements of the financialised capitalism. Fiscal policies have been designed and implemented in compliance with the neoliberal discourse.

Fiscal discipline and rules based fiscal policies have been exclusively advocated since the 1990s. A compatible transformation can also be observed with respect to taxation policies. The aim of broadening the tax base has been prevalently advocated. This process was associated with the changes in economic theory and respective policies. The emergence of the supply-side economics and the Laffer curve as its upshot in the 1970s has been effective regarding the theoretical instruments. Accordingly, if the optimal taxation rate is exceeded the substitution effect of taxation will be in charge and rather than a rise there will be a loss in tax revenues. The practical outcome of this approach was the implication that the tax rates were already higher than the optimal rate (Pınar, 2006: 69) with a
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concordant debate on the trade-off between efficiency and equity. Ramsey rule in taxation also emphasised “optimal taxation” via the target of minimising the excess burden.

Wagner (1964: 1-15) distinguishes between “purely financial” and “social welfare” purposes of taxation. In this respect, social welfare purpose of taxation, particularly the one that is related to distributional concerns and development objectives have been subordinated to the efficiency objective since the late twentieth century when the financial liberalisation was in effect in most of the countries. The policies enforced by the neoliberal turn were mainly liberalisation, deregulation, restructuring the role of the state, and privatisation; all of which have been promoted further by both Washington Consensus and Post-Washington Consensus.

Washington Consensus had a critical impact on the alteration of fiscal policies since the 1990s. The elements of the Consensus were fiscal discipline, reordering public expenditure priorities, generating a broad tax base with moderate marginal rates, which was advocated under the term of “tax reform”, liberalising interest rates, a competitive exchange rate, trade liberalisation, liberalisation of inward foreign direct investments, privatisation, deregulation, and property rights. (Williamson, 2004; 2004-2005: 196). Following the severe crises in the so-called emerging markets during the 1990s, policy proposals of Washington Consensus became disputable. Subsequently, via the Post-Washington Consensus the basics of the original consensus were preserved with augmented elements such as corporate governance, coping with corruption, flexibility of labour markets, “prudent” capital account opening, inflation targeting, and poverty reduction policies. (Rodrik, 2006: 977-979).

Financial Liberalisation in Turkey

The accumulation model in Turkey was altered from import substitution to export promotion in the 1980s. Throughout this transformation process various liberalisation and deregulation practices took effect regarding the current account and the capital account respectively.

The steps of the liberalisation policies in Turkey commenced in 1980 with the implementation of the structural adjustment programme. Liberalisation of foreign trade, foreign exchange regime, and interest rates, creation of an interbank money market, establishment of the Capital Market Board, reopening of the Istanbul Stock Exchange, initialisation of open market operations by the Central Bank, ultimately sustaining the full convertibility of the Turkish Lira and liberalisation of the capital account in 1989 were the main pillars of the process (Balkan and Yeldan, 2002: 40-41; Boratav and Yeldan, 2006: 421; Köse and Yeldan, 1998: 53-54).

During the liberalisation process, minimising the role of the state with a particular focus on promoting the smooth functioning of the markets was
advocated and significant privileges were provided to several capital groups among which export oriented firms were the primary beneficiaries. Wages were repressed in order to promote exports. Meanwhile, taxes on “unearned income” were lowered or they were even not subject to taxation at all. Therefore on the facet of minimising the role of the state, the state was substantially intervening the economy in favour of capital.

Subsequent to financial liberalisation and the surge in capital inflows that reached an eighteen-fold increase in 1990, Turkey was exposed to massive amounts of outflows in a very short period of time in terms of the macroeconomic policy objectives, and had to cope with the rapid outflows of capital and concomitant financial breakdowns (United Nations Conference on Trade and Development, 2000: 62). The macroeconomic policy instruments have been seriously constrained by the capital flight issue. The claim was that any increase in tax rates, particularly on capital gains would create distortions and lead to “inefficiency”.

There is a broad literature regarding the impacts of financial liberalisation in Turkey. According to Balkan and Yeldan (2002: 48), the responsiveness of capital inflows to the domestic rate of returns has been quiet high. They also emphasise on the rising marginalisation in labour markets, high real interest rates and high volatility of the accumulation (Balkan and Yeldan, 2002: 46). Onaran (2006: 17), underlines that Brazil and Turkey have the highest return on hot money flows. Turkey had the highest short-term return among the OECD countries; which reached record levels of 92.4 percent in 2001 and it was 18.3 percent in 2007 (Organisation for Economic Co-operation and Development, 2008: 272) just before the outbreak of the recent crisis of financialised capitalism. The impacts of liberalisation and deregulation on income distribution can be viewed prominently via the deterioration of labour incomes and the surge in profits -particularly the enormous rise in interest incomes. In this respect Brazil and Turkey are once again the most striking countries. (Taylor, 2006: 5).

While financial liberalisation expedited financialisation of the economy, the fragility and instability intensified via the crises of 1994, 2000-2001 and 2008-2009. The most recent crisis can be distinguished from the previous crisis episodes as they represented severe financial crises of Turkey that were accompanied by a fiscal crisis, while the latter originated from the developed world and severely affected developing countries. Meanwhile, policy measures were similar as they based on fiscal discipline, sustainability of public finances, and fiscal rules or rule like practices. Since the beginning of 1990s, public debts surged and their term structures shortened. In order to service the debt, governments were required to

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7 Regarding the capital flight and its impacts on the economy please see Akyüz and Boratav, 2005; Cizre-Sakalloğlu and Yeldan, 2000; Demir, 2004; Yeldan, 2001; 2004.
8 See Arıkboğa, 2013: 64.
secure primary surplus under the terms of the structural adjustment programmes so as to sustain credibility that eventually result in curtailing of the real public expenditures. (Yeldan, 2004: 369). The gap between the consolidated budget balance and the primary balance widened since 1989 as the interest payments on debt rose significantly (Demir, 2004: 856-857).

The ratio of interest payments on debt to total tax revenues rose by the mid 1980s and reached a peak ratio of 103.3 in 2001. Although the interest payments fell rapidly during the last decade the ratio is still high and close to the ratios of the mid 1980s, and higher than the share of public investment expenditures that decreased sharply particularly for the last two decades (see Graphic 1).

**Graphic 1: Public Investment Expenditures and Interest Payments as Percentage of Tax Revenues (1980-2012)**

[Graph showing the percentage of tax revenues spent on public investment expenditures and interest payments from 1980 to 2012.]

Consolidated budget for 1980-2005 and central government budget since 2006. Source: Author’s calculations from Republic of Turkey Ministry of Finance, General Directorate of Budget and Fiscal Control

In the course of financial liberalisation, the banking sector has been a source of domestic debt and its traditional role between savers and investors was subordinated to these transactions. During this process banks became almost the sole buyer of government domestic debt instruments (Yeldan, 2001: 148-149).

Accelerating growth and achieving development objectives via financial deepening were the prominent expectations following the financial liberalisation process. Graphic 2 reveals the composition of total financial assets in Turkey between 1980-2010. Accordingly, percentage share of total deposits was 73 percent in 1988, however, since the 1990s the share of securities increased enormously
while mainly the deposits were taxed at a relatively low -currently 15 percent for TL deposits with maturities up to 6 months- proportional rate. Furthermore, the rise in the share of securities was due to the significant increase in the percentage share of public securities following the capital account liberalisation; however, private securities decreased and have been at considerably low levels as opposed to the arguments of the advocates of financial liberalisation and deregulation practices. (Balkan and Yeldan, 2002: 42; Demir, 2004: 854; Köse and Yeldan, 1998: 54). Another striking point was the rise in the percentage share of foreign exchange deposits following the capital account liberalisation until the early 2000s as an indicator of currency substitution (Akyüz and Boratav, 2005: 263; Balkan and Yeldan, 2002: 42; Köse and Yeldan, 1998: 54-55; Marois, 2012: 107).

**Graphic 2: Composition of Total Financial Assets (1980-2010)**

(*): Total deposits excludes interbank deposits.
(**): The securities data for 2010 are November 2010 data.
Source: Republic of Turkey Ministry of Development, Indicators and Statistics, Economic and Social Indicators.

Therefore, the state has played a key role in the financial deepening process in Turkey initially via the government debt instruments during the 1990s. The private pension system and promotion of pension funds, diversification of consumer loans and subsequently the rise in household debt enhanced further this process particularly since 2001 (Güngen, 2015: 30-31).
Fiscal Policy Responses to Crises since Financial Liberalisation in Turkey

The extensive focus on fiscal discipline and tight fiscal policies in Turkey was grounded particularly on the surge in domestic debt stock and interest expenditures since the mid-1990s. Throughout the 1990s, public investment expenditures were undermined and budgetary process has been an effective instrument for redistribution of income in favour of the financial sector (Yeldan, 2001: 124). The share of public investment expenditures have already been declining since the late 1980s; however, a sharp reduction was realized in 1994 crisis (see Graphic 1). Distribution of income was largely effected via the state’s response to the crisis, the outcome of which was a transfer of the economic surplus from labour incomes -and real sectors in general- to financial sectors (Balkan and Yeldan, 2002: 43). The withholding tax on bonds and bills was repealed in 1994 (Güngen, 2010: 13). Although these practices were introduced as elements of crisis management policies, they have been effective in promoting financialisation process and had critically effected distribution of income.

2000-2001 crisis was one of the most severe crisis in Turkey. Privatization, promotion of a regressive tax system via rising the share of indirect taxes, inflation targeting policies, increasing the flexibility of labour markets, and liberalisation of the agricultural sector were the prominent policies following the crisis (Dufour and Orhangazi, 2009: 102; 120). Obtaining primary surplus and price level stability have been the primary goals of fiscal and monetary policies respectively (Cizre and Yeldan, 2005: 404). The debt swap in June 2001 was an attempt to reduce risks arising from open positions of the banking sector (Bağımsız Sosyal Bilimciler, 2001: 16-17), as the risks carried by the banking sector were undertaken by the Treasury debt swap was asserted as a rescue operation (Güngen, 2010: 14-15). Consequently, debt service rose rapidly to enormous levels and costs of the crisis were socialised.

Finally, during the crisis of 2008-2009, output level, export volume and employment -the real economy- has been effected in Turkey (The World Bank, 2010: 54). The crisis also affected public finances, particularly via the decline in tax revenues that was mainly a result of decreasing imports and the stimulus packages that were introduced throughout the late 2008 and 2009 (Bağımsız Sosyal Bilimciler, 2011: 128-134). One of the major fiscal policy tools as a response to the crisis was reductions in value added and excise taxes, the result of which was

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10 See also Cizre-Sakallıoğlu and Yeldan, 2000: 489-491; Telli et al., 2009: 209; Yeldan, 2004: 368-373; Graphic 1.
increased regressivity of the tax system as tax reductions mostly favoured high income groups. (Albayrak, 2011).

The Tax Structure and the Composition of Tax Revenues in Turkey

Financial liberalisation and ongoing financialisation process critically effected taxation policies; the most striking outcome of which has been the rising unequal distribution of the tax burden. The share of income tax in total tax revenues declined gradually from about 40 percent to 20 percent and the share of corporate tax was almost stable with an average of 9 percent since 1990. However, taxes on goods and services rose almost steadily following the financial liberalisation until the early 2000s and yet they compose a considerable amount of total tax revenues (see Graphic 3).

Graphic 3: Income Tax, Corporate Tax and Domestic Taxes on Goods and Services as Percentage of Tax Revenues (1990-2012)

Source: Author’s calculations from Republic of Turkey Ministry of Finance, General Directorate of Budget and Fiscal Control

11 The unequal distribution of the tax burden in Turkey has been pointed out widely; please see Akkoyunlu, 2003; Albayrak, 2011; Demir, 2004: 858; Köse et al., 2009; Pinar, 2004; Pinar, 2005; Yakar Önal and Temelli, 2011a; Yakar Önal and Temelli, 2011b. It is noteworthy that Pinar (2004) is an initial analysis on the distributive impacts of taxes and public expenditures in Turkey.
The alteration in the composition of tax revenues in Turkey reveals that equity objective has been subordinated to efficiency objective. Among the compelling factors of this alteration, prominence of supply side economics along with capital flight issue that has been accompanied by the insufficiency of domestic funds were the most significant. One of the arguments regarding the impact of financial liberalisation on tax revenues is the decline of taxes generated from capital gains; as the increasing mobility of capital leads governments to implement relatively low tax rates in order to attract capital. This is a more vital issue if domestic savings cannot meet the country’s investment requirements and often results in “race to the bottom” in tax rates. In case of entrenched dependency on external funding, as it is the case in Turkey, GDP expands in periods of capital inflows. One of the key concepts that has been very effective in the design of the tax structure is “international tax competition” as a result of which some part of the tax burden shift from income to consumption and from capital to wage income (Yakar Önal and Temelli, 2011a: 64; 2011b: 338, 345). Particularly, the high share of withholding tax on wages vis-à-vis other components of income tax such as income taxes based on declaration or corporate tax raises concerns about unequal distribution of the tax burden. Although a dual income tax is not formally implemented in Turkey it could be argued that it is already being implemented de facto. (Yakar Önal and Temelli, 2011b: 347). Albeit total financial assets have risen significantly since the 1990s, taxes on capital gains have been at strikingly low levels. For example, the share of withholding tax on TL deposits was 6.7 percent of the total withholding tax on income in 2013. However, withholding tax on wages constitutes a substantial part of the income tax. The percentage share of withholding tax on wages in total withholding tax on income reached a peak ratio of 67.2 in 2013 (Gelir İdaresi Başkanlığı, 2014: 104-106).

The comparison of interest payments on domestic debt and corporate tax revenues is also striking regarding the attitudes of the government in distributional concerns. Accordingly the percentage share of domestic debt interest payments in GNP rose from 2 percent to 14 percent within a decade following 1989; whereas corporate tax burden did not exceed 2 percent during the same period; revealing how the fiscal policies were implemented as an income transfer mechanism in favour of capital (Yeldan, 2001: 122-123; see also Cizre-Sakalloğlu and Yeldan, 2000: 490; Yeldan, 2004: 369-370).

The enormous rise in the burden share of taxes on goods and services is in fact par for the course as the prevalence of neoliberal economic policies have been effective on the restructuring of the role of the state. Therefore, designing a regressive tax structure has been among the distinguishing attempts within the

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12 Boratav and Yeldan (2006: 421) point to the supply-side orientation in fiscal policies.

13 The close relation between GDP growth and import growth in Turkey is pointed out in various papers. See for example Köse and Yeldan, 1998: 57.
framework of neoliberal policies. The crisis years are particularly striking with respect to the considerable rise in the share of domestic taxes on goods and services in GDP (see Graphic 4).

**Graphic 4: Income Tax, Corporate Tax and Domestic Taxes on Goods and Services as Percentage of GDP (1990-2012)**

![Graphic 4: Income Tax, Corporate Tax and Domestic Taxes on Goods and Services as Percentage of GDP (1990-2012)](image)

Source: Author’s calculations from Republic of Turkey Ministry of Finance, General Directorate of Budget and Fiscal Control

Graphic 5 reveals the total tax burden in Turkey since the 1980s, when liberalisation and deregulation practices were commenced via primarily trade liberalisation. As a matter of fact, Graphic 4 and Graphic 5 are explicit indicators of how the austerity policies affected the composition of tax revenues in Turkey. Although total tax revenues as percentage of GDP has been steadily rising since the mid-1980s, direct taxes as percentage of GDP have been almost stable around 6 percent (see Graphic 4); this is a significant indicator of the unequal burden distribution among taxpayers.\textsuperscript{14} In other words, the tax burden is put mainly on the means of production that have less or restricted mobility.

\textsuperscript{14} Pınar (2005: 49) emphasises on the rising ratio of total tax revenues to GDP and the decreasing ratio of direct taxes to total tax revenues. See also Yakar Önal and Temelli, 2011a: 72.
The regressivity of the tax structure —one of the key indicators of which is the rising share of indirect taxes— has increased since the financial liberalisation. Indirect taxes have significant effects on the unequal distribution of the tax burden as the tax paid by low income groups is greater than the tax paid by high income groups relative to their respective incomes as a result of the higher marginal propensity to consume of the former. The share of indirect taxes has been rising since the trade liberalisation in 1980 in general and since the implementation of value added tax in 1985 in particular and this trend accelerated since the 1990s following the process of financial liberalisation. Indirect taxes have been effective in achieving the aim of broadening the tax base. (Yakar Önal and Temelli, 2011a: 72).

Indirect taxes have also been the means of socialising costs of the severe crises in Turkey. It can be viewed by Graphic 6 that the share of indirect taxes rose remarkably following the crises of 1994, 2000-2001 and 2008-2009. In other words, the gap between the percentage shares of direct and indirect taxes in total tax revenues has been getting larger in favour of the latter particularly after the crisis years. Therefore regressive taxes have been effective in the adjustment process following a crisis in the context of the austerity policies which were not apparently neutral between labour and capital incomes.
The tax system in Turkey has been more regressive since the 1980s and the redistributive role of the state has been subordinated to the policies concentrating on management of poverty (Yakar Ön al and Temelli, 2011a). Although the after-tax income distribution is more unequal than the pre-tax income distribution, the reluctance in rising direct taxes and enabling the coordination of the tax structure with a more equal income distribution is striking. Neoliberal policies in Turkey relies on growth targets and social transfers to poor households in order to alleviate poverty rather than increasing the degree of progressivity of the tax system (Şenses, 2003: 342). The rising degree of progressivity of taxes that is associated with the ability to pay principle in taxation; is not likely to be implemented during the current state of the world economy (Önder, 2003: 259) that is shaped by the ascendancy of finance. In fact, it can be argued that neither the benefit principle is applied as the capital can utilise an extensive set of investment incentives that can eventually decrease effective tax rates. Karatepe (2015: 252); focuses on the continuity in the incentive policies and practices regarding the distribution of incentives between the subgroups of capital in Turkey. Meanwhile, it is noteworthy that the scope of the incentive policies has been broadened and various tax incentives have been provided by the most recent incentive system since 2012 (Akduran and Temelli, 2015: 237; Karatepe, 2015: 270-71).
Conclusion

The paper attempted to provide an answer if the tax system has a regressive structure subsequent to the financial liberalisation process in Turkey. While the tax burden has increased -although the average ratio is yet less than the OECD average- during the last two decades, it is noteworthy that income tax burden has not been contributing to this trend\textsuperscript{15} whereas the ratio of indirect taxes to GDP has been rising almost steadily since the 1990s. The tax policy has been designed in compliance with the promotion of financialisation process; therefore, reluctance to impose taxes on capital gains has been striking. Tax structure in Turkey is mostly confined to labour incomes as the share of corporate tax revenues in total tax revenues did not exceed 10 percent and capital gains are generally not taxed or a low proportional rate is implemented. Consequently, the rising share of indirect taxes in total tax revenues is one of the most significant indicators of the regressive tax structure in Turkey along with the high share of withholding tax on wages. Therefore, the design of the tax policy has been in favour of capital since the liberalisation of capital account and eventually the burden of adjustment following the severe crises for the last two decades fell particularly on labour incomes. Moreover, concerns about the sustainability of public debts constrained the implementation of discretionary fiscal policies and tight fiscal policies advocated prevalently.

\textsuperscript{15} The high share of informal employment should also be taken into account when analysing the course of the tax burden.
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