*Ahmet Burçin Yereli*

# Macroeconomic effects of tax competition in Turkey

## Introduction

Globalisation and new electronic technologies can permit a proliferation of tax regimes designed to attract geographically mobile activities. Governments must take measures, in particular intensifying their international co-operation, if the worldwide reduction in welfare caused by tax-induced distortions in capital and financial flows is to be avoided and their tax bases protected. Evidently, the OECD has a problem with tax competition:

> If nothing is done, governments may increasingly be forced to engage in competitive tax bidding to attract or retain mobile activities. That 'race to the bottom', where location and financing decisions become primarily tax driven, will mean that capital and financial flows will be distorted and it will become more difficult to achieve fair competition for real economic activities. (Laband, 2000)

The concept of tax competition is the focus of this study, which will discuss the macroeconomic effects of financial policies based upon tax competition which have been pursued after 1980 in Turkey. The Turkish case is also compared with European – especially east European – countries.

## The concept of tax competition

Globalisation is knitting separate national economies into a single world economy. This is occurring as a result of rising trade and investment flows, greater labour mobility and rapid transfers of technology. Individuals and businesses gain greater freedom, as economic integration increases, to take advantage of foreign economic opportunities. This, in turn, increases the sensitivity of investment and location decisions to taxation. Countries feel pressure to reduce tax rates to avoid driving away their tax bases. International 'tax competition' is increasing as capital and labour mobility rises. Most industrial countries have pursued tax reforms to ensure that their economies remain attractive to investment. The average top personal income tax rate in the major industrial countries of the OECD has fallen by twenty percentage points since 1980. The average top corporate income tax rate has fallen six percentage points in the past fifteen years alone.

Rising tax competition has caused governments also to adopt defensive rules to prevent residents and businesses from enjoying lower tax rates abroad. In the United States, such tax rules are hugely complex and affect the ability of US companies to compete in world markets. Other defensive responses to tax competition include proposals to harmonise taxes across countries and to restrict countries from offering tax climates that are too hospitable to foreign investment inflows (Edwards and Rugy, 2002).

Tax competition is defined as the low effective tax rate of countries, as a result of economic integration and gradually increasing financial integration, so as to encourage financial capital and companies within their own markets (Engin, 2002). In other words, tax competition can be considered as the strengthening of the national economy of a country provided by taking foreign capital to the limit and increasing the competitive power of domestic enterprises by a decrease in the tax burdens of taxpayers relative to other countries.

Tax competition forces states to keep an optimal balance between the total tax burden in the country and the supply of public services in order to decrease public expenditure to a reasonable level or to keep it low. Looked at from this aspect, tax competition is beneficial.

Causing some negative tax externalities for a country by implementing lower tax rates only for foreign companies, undermining the tax base of that other country, is named as harmful tax competition.

The debate whether tax competition is beneficial or harmful has recently increased. However, there is no common basis for such a debates. The phrase 'harmful tax competition', which is taking its place in the literature on tax competition, is mentioned in OECD studies; such studies focus on *tax havens*[1] and *preferential tax regimes*[2] in particular as harmful tax practices. Therefore, implementation of free zones and offshore banking regimes are two concrete examples of harmful tax practices (see OECD, 2000).

The OECD estimates that:

> Foreign direct investment by G7 countries in a number of jurisdictions in the Caribbean and in the South Pacific island states, which are generally considered to be low-tax jurisdictions, increased more than five-fold over the period 1985-1994 to more than $200bn (Laband, 2000).

## Tax competition after 1980 in Turkey

A development policy based upon exports was commenced after in Turkey after 1980. Subsequently, various tax reductions have been implemented for some enterprises that are active in export production, while export premiums are paid to exporting companies. Implementation of free zones also commenced in this period.

1 The concept of a 'tax haven' refers to tax jurisdictions which offer themselves as a place in which non-residents can escape tax obligations in their countries of residence. A number of factors identify such havens, in particular the virtual absence of taxes combined with minimum business presence requirements and a lack of legislative and administrative transparency. Bank secrecy and other features preventing the effective exchange of information are also discernible. Using these definitions, a list of jurisdictions identified as tax havens should help to form a basis for unilateral or collective counter-measures (see Owens, 2005).

2 The concept of 'harmful' preferential tax regimes refers to low tax regimes – provided for either in general tax legislation or as administrative measures – which are primarily tailored to tap into the tax bases of other countries. Characteristics of such regimes are low effective taxes combined with 'ring-fencing' arrangements under which they are partly or fully insulated from the domestic economy. There is often a lack of legislative and administrative transparency here too, as well as difficulties accessing information. The potentially harmful regimes in the OECD area tend to target banking, finance and insurance, headquarters location and distribution and similar services although, of themselves, these are legitimate commercial activities (see Owens, 2005).

The period from 1980 to 1989 contained the implementation of initiatives regarding commercial liberalisation. However, the negative balance in public finance, reaching the capacity usage limits of the private sector, together with financial requirements formed by the reimbursement of foreign financial sources which were provided more easily in comparison with the first half of 1980, has led the economy to direct financial intervention in foreign markets.

A series of tax incentives for underdeveloped regions so as to eliminate inter-regional imbalances have been implemented in Turkey since 1980. From June 1985, in accordance with Law No. 3218, free zones have been established and, by March 2005, 23 such free zones had become available in Turkey. The number of facilities active in these regions exceeds 4 000 and employment totals 38 000. The trade capacity of these regions in 2004 amounted to $17bn.

Domestic and foreign enterprises benefit to the same degree from the tax privileges provided for free zones in Turkey. These privileges are as follows:

- income obtained from activities in these zones are exempt from personal income and corporate income tax, and deliveries of goods and service are exempt from value added tax
- personal income tax is not levied on the wages of workers employed in the zones
- the personal and corporate incomes of residents and non-residents in the zones are exempt from personal and corporate income tax where incomes are conveyed to Turkey in accordance with exchange regulations.

The regulations regarding offshore banking in Turkey are conducted in accordance with the law on free zones. Owing to a decision of the Cabinet dated 18 September 1990 and numbered 90/999, the issue of establishing banks in the free zones, or becoming a partner with an established bank, is not subject to the banking law; the Treasury and the Foreign Trade Under-Secretary have authority on this issue. So, offshore banks are accorded some privileges as regards activities in free zones as the funds they collect are not subject to legal consideration and are not subject to the limitations in the banking law concerning credit. However, banks established in Turkey are not allowed to open branches in the zones. Consequently, Turkish banks are trying to provide offshore banking business by establishing banks abroad.

Personal income obtained from offshore banking is subject to income tax, but incomes gained from branches of offshore banks are not taxed due to the failure to establish inspection mechanisms to assess the income. On the other hand, these banks are not subject to restrictions as regards the limitation of credit so companies can use credits as they wish.

## The advantageous effects of tax competition

The positive effects of tax competition can be specified as an increase in foreign capital investment, the more effective use of tax income and tax reductions. The development of these positive effects in Turkey is dealt with in the following sub-sections.

### *Cutting tax rates*

Owing to tax competition, tax reductions made in one country force other countries also to reduce taxes. The United States led the world in 1986 by cutting the federal corporate tax rate from 46 per cent to 34. Most major countries followed suit and then continued cutting in the 1990s, with the result that the United States now has a higher corporate tax rate than all other major countries except Japan (Edwards, 2005). In response to the 1980 Reaganite tax reductions in America, all OECD countries (except Spain and Portugal) made reductions in the rates of marginal income tax between 1986-1991 (Hallerberg and Basinger, 1997), while all EU member countries except Portugal made reductions in the rates of corporation tax between 1985-1998. In the first half of the 1980s, tax reductions over the world followed the tax reductions made in the USA and the UK (Mitchell, 2000).

The corporate tax rate in France, Italy and Germany ranges from 35% to 38%; in Hungary, Poland and Slovakia, rates are only 16% to 19%; and in Latvia and Lithuania, they are 15%. Estonia does not levy any tax on corporate profits that are reinvested. But such headline tax rates reveal little about the real tax burden: the tax base, the item or activity that the tax is levied on, is equally important. There are various ways in which the tax authorities treat, for example, a company's debt or the depreciation of its machinery for taxation purposes. In addition, most EU governments grant various kinds of tax relief, such as for research and development or investment in poor areas. The result is that the real tax burden, or what economists call the effective tax rate, is usually different from the headline tax rate. For instance, in Germany's fiendishly complicated tax system, the effective corporation tax rate is estimated to be only half the 38 per cent headline rate. Some of the country's largest companies enjoy so many tax breaks that their effective tax rate is zero (Barysch, 2004).

Turkey, a developing country and one affected by the above-mentioned tax reduction policies, has experienced a series of reductions in taxes after 1980. The income and corporate tax rates implemented over these years are shown in Table 1:

**Table 1 – Income tax rates in Turkey between 1980-2005**

| **Years** | **1980** | **1985** | **1990** | **1995** | **2000** | **2002** | **2005** |
|---|---|---|---|---|---|---|---|
| Personal income tax | 25-75 | 25-63 | 25-50 | 25-55 | 20-45 | 20-45 | 20-40 |
| Corporate income tax | 46 | 46 | 46 | 44 | 33 | 33 | 30 |

Source: James Gwartney and Robert Lawson: *Economic Freedom of the World: 2004 Annual Report*. Rates for 2005 have been added by the author.

Table 1 shows that there has been a sharp decrease in the rate of corporate tax and in the upper and lower rates of income tax. However, the rate of value added tax has been increased: the general rate has increased from 10% to 18%; and, starting from 1 August 2002, private consumption tax has been implemented. Thus, an increase in tax collection rates has been sought via direct taxes rather than via indirect ones. Column A of Table 2 points out that taxes collected over incomes and profits, as a percentage of total tax income, reached 52% in 1980 but that this figure had decreased by 2002 to

25%. Correspondingly, the level of consumption taxes in total tax income, which was less than 25% in 1985, had reached 75% by 2004 via the levy of value added and private consumption taxes. Owing to this, despite the tax reductions that have partially relieved those who are earning income, the actual increases in tax caused by the expenditure of that income has increased the price of goods and services in the market. Column M shows that the level of total tax income in domestic product was 15% in 1985 and that this figure had increased to 31% in 2002 (it has further increased to 34% in 2003 and 35% in 2004). So, the tax burden has increased almost two-fold. However, indirect taxes can be reflected and this differential transformation in the tax system has led to taxpayers feeling an increasing tax burden.

**Table 2 – Various tax statistics of Turkey in particular years**

| Years | A | B | C | D | E | F | G | H | I | J | K | L | M |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1965 | 29.6 | 3.1 | 53.4 | 5.6 | – | – | 5.9 | 0.6 | 24.8 | 2.6 | 4.8 | 0.5 | 10.6 |
| 1970 | 33.5 | 4.2 | 48.8 | 6.1 | – | – | 6.3 | 0.8 | 27.0 | 3.4 | 6.4 | 0.8 | 12.5 |
| 1975 | 42.3 | 6.8 | 40.9 | 6.5 | – | – | 9.5 | 1.5 | 32.9 | 5.3 | 5.1 | 0.8 | 16.0 |
| 1980 | 51.8 | 9.3 | 25.2 | 4.5 | – | – | 14.0 | 2.5 | 43.5 | 7.8 | 4.1 | 0.7 | 17.9 |
| 1985 | 37.0 | 5.7 | 12.4 | 1.9 | 23.3 | 3.6 | 14.3 | 2.2 | 27.5 | 4.3 | 9.5 | 1.5 | 15.4 |
| 1990 | 33.5 | 6.7 | 7.3 | 1.5 | 20.1 | 4.0 | 19.7 | 3.9 | 26.8 | 5.4 | 6.7 | 1.3 | 20.0 |
| 1995 | 28.3 | 6.4 | 6.0 | 1.4 | 31.1 | 7.0 | 12.1 | 2.7 | 21.6 | 4.9 | 6.7 | 1.5 | 22.6 |
| 2000 | 29.5 | 9.5 | 16.4 | 5.3 | 24.2 | 7.8 | 18.7 | 6.1 | 22.2 | 7.2 | 7.3 | 2.4 | 32.3 |
| 2001 | 28.9 | 10.1 | 15.6 | 5.5 | 23.0 | 8.1 | 21.5 | 7.6 | 22.0 | 7.7 | 6.8 | 2.4 | 35.1 |
| 2002 | 24.7 | 7.7 | 19.1 | 5.9 | 26.1 | 8.1 | 19.8 | 6.1 | 17.6 | 5.5 | 7.1 | 2.2 | 31.1 |

Source: Author based on OECD data; OECD (2004): *Revenue Statistics of OECD Member Countries* Paris.

A: Income and profit taxes/total tax revenues B: Income and profit taxes/GDP
C: Specific goods and services taxes/total tax revenues D: Specific goods and services taxes/GDP
E: General consumption taxes/total tax revenues F: General consumption taxes/GDP
G: Social security payments/total tax revenues H: Social security payments/GDP
I: Personal income taxes/total tax revenues J: Personal income taxes/GDP
K: Corporate income taxes/total tax revenues L: Corporate income taxes/GDP
M: Total tax revenues/GDP.

### *More effective usage of tax incomes*

The second positive effect of tax competition is the compulsion on governments to use public funds more effectively. Under conditions of tax competition, it is stated that governments will have to cut unproductive public consumption expenditure and increase the quality of public services (Edwards and Rugy, 2002). Governments will also have to behave more sensitively on the question of the efficiency of public production while other conditions (to increase public debt or cut public expenditures) are necessary so as to strike a balance concerning domestic political pressures caused by the melting of public incomes.

The inefficiencies and waste of public resources stemming from the public sector economy, which have been experienced after 1990 in Turkey, concluded with the 1994 to 2001 economic crisis. The fluctuations experienced in the market ended with poverty at the microeconomic level and recession at the macroeconomic one.

**Table 3 – Functional distribution of consolidated budget expenses in Turkey (%)**

| | 1981 | 1985 | 1990 | 1996 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| General administration expenditure* | 66.5 | 50.4 | 37.4 | 37.9 | 33.8 | 29.4 | 34.5 | 32.5 | NA | NA |
| Expenditure on economic services** | 18.6 | 22.8 | 16.7 | 9.3 | 9.1 | 7.8 | 7.6 | 7.3 | NA | NA |
| Expenditure on social services*** | 14.9 | 15.6 | 25.5 | 15.1 | 13.3 | 11.8 | 13.1 | 18.5 | NA | NA |
| Debt interest payments | – | 11.2 | 20.4 | 37.7 | 43.8 | 51.0 | 44.8 | 41.7 | 44.0 | 36.3 |
| Total expenditure in consolidated budget | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Author based on data of the Ministry of Finance of the Turkish Republic.

* General administration expenditure consists of expenditure on general services, national defence, justice and security

** Expenditure on economic services consists of agricultural, rural and forestry affairs, water affairs, highways, public works, transportation and mining

*** Expenditure on social services consist of education, health, culture, tourism and other social services.

Note: 2004 and 2005 data are estimated as regards the value of debt interest payments, while the other values are not available because of a change in the system of the Turkish budget.

It can clearly be seen in Table 3 that efficiencies have been made in the spending of tax revenues. The share in the consolidated budget of general administration expenditure and expenditure on economic services has been reduced over the last 25 years. However, debt interest payments have reached the level of one-half of the consolidated budget (although these have subsequently declined).

### *Increase in foreign capital inflows*

The accession countries have attracted more than €140bn in foreign direct investment since 1990. However, most of this money has come in addition to, and not instead of, investment in the old EU countries. Governments, not only in eastern Europe but around the world, can and do use their tax systems to lure investors from abroad. Large companies have, at times, played off one EU country against another in the attempt to obtain the most favourable tax treatment. Many of the west European car producers that have built factories in Slovakia, Poland and the Czech Republic have secured lengthy tax holidays during which they pay little or no tax. However, taxes are only one factor in determining companies' investment plans. In the case of eastern Europe, fast growth rates, improving business environments and low-wage, high-skilled workers are at least as important in attracting foreign businesses (Barysch, 2004).

Turkey has a liberal investment regime in which foreign investment receives national treatment. The Treasury Under-Secretariat screens foreign investment proposals, but this appears to be a routine and non-discriminatory process. Almost all areas open to the Turkish private sector are fully open to foreign participation, but establishments in the financial and petroleum sectors do require special permission. The equity participation ratio of foreign shareholders is restricted to 20% in broadcasting and 49% in aviation, telecom services and maritime transport. Problems currently exist with foreign investment in the power sector. Government monopolies still exist in a number of areas although they have been scaled back in recent years.

Owing to tax competition, it is possible to see the increase in foreign capital investment as sensitive to the tax practices in the country. Tax is, in particular, an important characteristic in the investment of financial capital, but many other functions can be effective in direct foreign capital investment. Despite the reducing tax rates, the inflow of foreign capital is still not as high as had been expected.

## Table 4 – Foreign capital flows in Turkey ($m)

| | 1980 | 1985 | 1990 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct foreign capital investment | 18 | 99 | 700 | 612 | 554 | 573 | 138 | 112 | 2 769 | 862 |
| Net foreign capital flows | 672 | 1 050 | 4 037 | 8 763 | 7 053 | -755 | 4 670 | 9 610 | -14 198 | 1 406 |

Note: Does not include IMF loans; source: T.C. Maliye Bakanlığı *Yıllık Ekonomik Rapor* (1983-2003).

Annual average foreign direct capital inflow between 1980-2002 amounts to $787.5m. The greatest economic crisis of the last hundred years happened in 2001, but foreign direct capital inflows were high that year because of the third GSM mobile tender, which was awarded to Is-Tim and Aria, as well as the selling of Demirbank to HSBC Group. The average inflow as a percentage of gross national domestic product in the years between 1995 and 2000 was 0.4% in Turkey, compared to 22.5% in Poland; 39.3% in the Czech Republic; 32.3% in Hungary; and 14.6% in Romania. It is the privatisation policies of these countries that has led to the increase in the inflow of foreign direct capital investment.

Economic and political instabilities, corruption, the shadow economy, bureaucratic barriers and high energy costs are also serious problems in the attraction of foreign direct capital to Turkey.

## The harmful effects of tax competition

The negative impact of tax competition can be seen in terms of the decrease in tax income as a result of the reductions in tax assessments; the decrease in public expenditure as a result of the decrease in tax revenues, or the financing of public expenditure with borrowing; corruption in the distribution of the tax burden or of incomes; a poor tax inspection rate; and the growth of the shadow economy.

### *Decrease in public revenues*

If there is a limited capacity for taxation concerning financial capital in a country, foreign capital input is likely to be realised in that country as a result of a reduction in tax rates; tax incomes are likely to increase as a consequence. On the other hand, a reduction in tax rates for a country having wide sources of taxation is likely to deliver foreign capital input into the country but, where this capital input cannot compensate for the decrease in tax rates, tax incomes are likely to decrease.

Decreasing tax revenues as a result of tax reductions are balanced by domestic debt. In the crisis years, net domestic debt reached 20% of the consolidated budget. Such deficit financing policies increase the amount of debt year-on-year and turn the public financial balances upside down.

The spending of borrowed money replaces spending financed by taxation. Governments which collect less tax and take no notice of the shadow economy gain more favour from voters. In time, however, poverty becomes a big problem in society and politicians start to engage with poverty reduction strategies. Then, they think about how to combat undeclared work, the shadow economy, economic crisis, the burden of domestic debt, etc.

The ratio of tax to gross national domestic product has proportionally increased over the years, as we saw in column M of Table 2. Nevertheless, this is highly misleading because a decrease in GNDP at a time of crisis also causes proportionate increases in tax revenues.

Tax reductions in Turkey have altered the structure of taxation. We have commented already that indirect taxes have replaced income taxes and this can also be further seen in Table 5. Indirect taxes are not practised as a principle of solvency, so such taxes are inequitable. Governmental preferences for such inequitable taxes not only harm tax justice but also affect income redistribution; in fact, they damage it. Increasing poverty and the growing shadow economy of recent years are the result of these implementations.

### Table 5 – Tax revenues by tax type in Turkey

| Year | Ratio of personal income tax to total tax revenues | Ratio of corporate income tax to total tax revenues | Ratio of value added tax to total tax revenues |
|---|---|---|---|
| 1985 | 34.6 | 11.7 | 24.8 |
| 1986 | 35.2 | 15.9 | 26.3 |
| 1987 | 34.2 | 14.7 | 28.4 |

| Year | Ratio of personal income tax to total tax revenues | Ratio of corporate income tax to total tax revenues | Ratio of value added tax to total tax revenues |
|---|---|---|---|
| 1988 | 33.7 | 14.9 | 29.3 |
| 1989 | 38.6 | 14.1 | 25.3 |
| 1990 | 41.0 | 10.2 | 27.2 |
| 1991 | 42.4 | 9.0 | 29.0 |
| 1992 | 42.4 | 7.1 | 29.7 |
| 1993 | 40.4 | 7.2 | 31.0 |
| 1994 | 30.9 | 7.5 | 30.1 |
| 1995 | 30.4 | 9.5 | 32.7 |
| 1996 | 30.1 | 8.4 | 33.1 |
| 1997 | 31.6 | 8.3 | 32.9 |
| 1998 | 37.7 | 8.1 | 29.5 |
| 1999 | 33.3 | 10.5 | 28.1 |
| 2000 | 23.4 | 8.9 | 31.6 |
| 2001 | 29.1 | 9.3 | 31.3 |
| 2002 | 23.0 | 9.3 | 34.2 |
| 2003 | 20.2 | 10.3 | 32.1 |

Source: author, based on data of the Ministry of Finance of the Turkish Republic.

### *Changes in the level of public expenditure and its composition*

When looking at OECD statistics, it can be observed that there is no decrease in the level of public expenditure as a result of tax competition and the deceleration in its increase trend. However, the restrictions put on public expenditure, and especially on public investment, are causing negative dividing effects to appear regarding low-income groups.

The burden of domestic debt interest has become harder after 1990. In 2001, three out of four transfer payments in the consolidated budget were made in respect of domestic debt interest. Poverty has also increased as a result of the disarray in the composition of public expenditure. Governments who have no funds for public investment and for transfers to the poor have to bargain with creditors in order to borrow, awarding them high rates of interest and thus helping to enrich them via public debt while poverty continues to increase.

**Table 6 – Distribution of transfer expenses in the consolidated budget (%)**

| | 1981 | 1985 | 1990 | 1996 | 2000 | 2001 | 2002 | 2003 | 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Debt interest payments | 7.9 | 30.8 | 56.1 | 61.9 | 66.8 | 73.3 | 66.8 | 62.0 | 36.3 |
| Domestic debt interest payments | *5.7* | *11.4* | *38.5* | *54.9* | *61.4* | *67.0* | *60.3* | *55.8* | *NA* |
| Foreign debt interest payments | *2.2* | *19.4* | *17.6* | *7.0* | *5.4* | *6.3* | *6.5* | *6.2* | *NA* |
| Transfers to state-owned enterprises | 50.9 | 8.3 | 5.1 | 2.1 | 2.8 | 2.0 | 2.8 | 2.0 | NA |
| Drawbacks | 1.4 | 33.3 | 14.3 | 4.4 | 5.3 | 5.2 | 7.3 | 8.8 | NA |
| Transfers to social security institutions | 11.1 | 9.7 | 4.9 | 13.8 | 10.8 | 9.1 | 14.4 | 16.9 | NA |
| Other transfers | 28.7 | 17.9 | 19.6 | 17.8 | 14.3 | 10.4 | 8.7 | 10.3 | NA |
| Total transfers | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: author, based on State Planning Organisation (2004): *Economic and Social Indicators (1950-2001) and Basic Economic Indicators*, July; T.C. Maliye Bakanlığı, 2005 Mali Yılı Butce Gerekcesi.

### *Increasing the tax burden on relatively immobile production instruments*

The other expected effect of tax competition is the transition of the tax burden to relatively immobile production instruments, such as labour, property and consumption. Taxes levied on wealth, such as property taxes, occupy a relatively unimportant position in the structure of income taxes but the tax burden on the labour factor of production has significantly increased. It is the increase in social security contributions which has led to the augmentation of this burden rather than the increase in taxes on goods and services.

The increase in social security contributions not only increases undeclared work and the shadow economy but also unemployment. That is, the indicated increase in social security contribution rates affects the level of employment depending on the level of organisation of the labour market.

Due to the increase in the tax burden on labour, any increase in unemployment or undeclared work restricts the labour tax base and also leads to further increases in the tax burden on declared labour.

In 2003, the overall tax burden[3] (i.e. the total amount of taxes and social security contributions) in the EU25[4] stood at 41.5% of GDP compared to 41.3% in 2002. After

3 The tax-to-GDP ratio measures the overall tax burden as the total amount of taxes and social security contributions put as a percentage of GDP. This indicator is widely used to measure the overall tax burden but includes taxes levied on social transfers. The recipients of social transfers often receive net payments directly so they do not feel the burden of paying taxes.

4 EU-25 countries consist of Belgium (BE); the Czech Republic (CZ); Denmark (DK); Germany (DE); Estonia (EE); Greece (EL); Spain (ES); France (FR); Ireland (IE); Italy (IT); Cyprus (CY); Latvia (LV); Lithuania (LT); Luxembourg (LU); Hungary (HU); Malta (MT); the Netherlands (NL); Austria (AT); Poland (PL); Portugal (PT); Slovenia (SI); Slovakia (SK); Finland (FI); Sweden (SE); and the United Kingdom (UK).

an increase from 42.4% in 1998 to 42.9% in 1999, the ratio of taxes to gross domestic product declined steadily until 2002. In all the ten new member states, the tax-to-GDP ratio was lower in 2003 than the average across the EU15 (41.8%).

Among EU member states, there are substantial differences in the total tax burden. In 2003, Sweden (51.4%) recorded the highest tax-to-GDP ratio, followed by Denmark (49.8%), Belgium (48.1%), France (45.7%) and Finland (45.1%). The lowest ratios were observed in Lithuania (28.7%), Latvia (29.1%), Slovakia (30.9%), Ireland (31.2%) and Estonia (33.4%).

Compared to 2002, the tax burden rose in 2003 in seventeen member states, while it fell in seven and remained stable in Germany. The highest increases in the tax-to-GDP ratio were recorded in Cyprus (from 32.5% to 34.3%), Ireland (from 29.8% to 31.2%) and Estonia (from 32.4% to 33.4%). The largest reductions were observed in Slovakia (from 32.5% to 30.9%), Greece (from 39.8% to 38.6%) and Finland (from 46.1% to 45.1%).

These figures come from a publication (Eurostat, 2005a)[5] issued by Eurostat, the Statistical Office of the European Communities. This report provides additional information on the evolution of the tax burden in the EU and in the member states between 1995 and 2003, and on the breakdown of tax revenues across member states by main tax category.

## Table 7 – Tax burden and structure of taxation in EU countries

| | Total taxes | | | Indirect taxes | | Direct taxes | | Social security contributions | |
|---|---|---|---|---|---|---|---|---|---|
| | as % of GDP | | | as % of total tax burden | | | | | |
| | 1995 | 2002 | 2003 | 2000 | 2003 | 2000 | 2003 | 2000 | 2003 |
| EU-25 | NA | 41.3 | 41.5 | 33.4 | 33.8 | 33.4 | 31.6 | 33.2 | 34.5 |
| EU-15 | 42.0 | 41.6 | 41.8 | 33.3 | 33.4 | 33.7 | 32.2 | 33.0 | 34.4 |
| Euro-zone | 42.5 | 42.1 | 42.2 | 32.5 | 32.8 | 30.4 | 29.0 | 37.1 | 38.2 |
| BE | 47.1 | 48.7 | 48.1 | 29.2 | 28.8 | 37.3 | 36.5 | 33.5 | 34.6 |
| CZ | 36.2 | 35.5 | 36.2 | 33.4 | 31.4 | 24.4 | 27.0 | 42.2 | 41.6 |
| DK | 50.1 | 49.7 | 49.8 | 34.5 | 34.9 | 59.2 | 59.6 | 6.3 | 5.4 |
| DE | 42.3 | 41.7 | 41.7 | 28.9 | 29.7 | 28.7 | 25.9 | 42.4 | 44.4 |
| EE | 37.9 | 32.4 | 33.4 | 39.6 | 39.3 | 25.1 | 26.1 | 35.3 | 34.5 |
| EL | 34.7 | 39.8 | 38.6 | 38.6 | 37.2 | 27.4 | 23.3 | 34.0 | 39.5 |
| ES | 34.3 | 36.3 | 36.5 | 33.7 | 33.7 | 29.9 | 29.6 | 36.4 | 36.7 |
| FR | 45.4 | 45.6 | 45.7 | 34.3 | 34.1 | 27.2 | 25.8 | 38.5 | 40.2 |

5 The publication is available free of charge in PDF format on the Eurostat website (see the footer to Table 7).

| | Total taxes | | | Indirect taxes | | Direct taxes | | Social security contributions | |
|---|---|---|---|---|---|---|---|---|---|
| | as % of GDP | | | as % of total tax burden | | | | | |
| | 1995 | 2002 | 2003 | 2000 | 2003 | 2000 | 2003 | 2000 | 2003 |
| IE | 35.2 | 29.8 | 31.2 | 41.7 | 41.4 | 41.1 | 39.5 | 17.1 | 19.1 |
| IT | 42.9 | 42.4 | 43.2 | 36.0 | 34.2 | 34.4 | 35.3 | 29.5 | 30.5 |
| CY | NA | 32.5 | 34.3 | 41.4 | 49.4 | 36.9 | 29.4 | 21.7 | 21.2 |
| LV | 33.7 | 28.9 | 29.1 | 38.7 | 39.4 | 27.5 | 29.1 | 33.8 | 31.5 |
| LT | 28.6 | 28.6 | 28.7 | 41.1 | 41.5 | 28.0 | 28.2 | 30.9 | 30.3 |
| LU | 43.6 | 42.1 | 42.3 | 35.4 | 32.9 | 37.6 | 37.7 | 26.9 | 29.4 |
| HU | 43.6 | 38.9 | 39.2 | 41.3 | 42.3 | 25.2 | 25.0 | 33.5 | 32.7 |
| MT | 31.3 | 34.3 | 34.2 | 42.8 | 40.8 | 31.3 | 35.5 | 25.9 | 23.8 |
| NL | 40.5 | 39.4 | 39.3 | 31.3 | 33.8 | 30.1 | 29.3 | 38.6 | 36.9 |
| AT | 43.6 | 45.4 | 44.8 | 33.7 | 33.7 | 29.2 | 29.9 | 37.1 | 36.4 |
| PL | 39.4 | 35.5 | 35.8 | 40.9 | 41.8 | 20.4 | 19.7 | 38.7 | 38.5 |
| PT | 34.5 | 37.4 | 38.1 | 40.4 | 41.9 | 28.1 | 24.6 | 31.6 | 33.5 |
| SI | 41.1 | 39.7 | 40.3 | 41.9 | 41.6 | 19.5 | 20.8 | 38.6 | 37.6 |
| SK | 40.6 | 32.5 | 30.9 | 37.8 | 36.9 | 22.1 | 23.2 | 40.1 | 39.8 |
| FI | 46.7 | 46.1 | 45.1 | 29.3 | 31.9 | 45.1 | 41.0 | 25.6 | 27.1 |
| SE | 50.2 | 51.0 | 51.4 | 31.0 | 34.0 | 41.4 | 36.4 | 27.7 | 29.6 |
| UK | 36.7 | 37.0 | 37.1 | 37.0 | 36.9 | 43.7 | 42.0 | 19.4 | 21.0 |

Source: Eurostat (2005b) *News Release* 15/2005, 28.02.2005 http://europa.eu.int/comm/eurostat/ [accessed 12 March 2005].

Tax revenues received by the general government are defined as taxes on production and imports, current taxes on income and wealth, capital taxes and actual and imputed social contributions. The different types of taxes comprise: indirect taxes, which are linked to production and imports (including compulsory levies on producer units, value added tax, import duties, excises and other specific taxes on services (transport, insurance) and on financial and capital transactions, as well as other taxes on production); direct taxes on income and wealth (including personal and corporate income taxes, as well as capital taxes); while social contributions comprise employers' and employees' actual and imputed social contributions, as well as those of self-employed people and those with no employment.

Focusing on the different types of taxes reveals significant differences in the structure of taxation systems between the member states. In 2003, Poland (19.7%), Slovenia (20.8%) and Slovakia (23.2%) recorded the lowest shares of direct taxes in the total tax burden, compared to the EU-25 average of 31.6%. On the other hand, Denmark (59.6%), the United Kingdom (42.0%) and Finland (41.0%) had the highest shares of direct taxes.

With regard to indirect taxes, Cyprus (49.4%), Hungary (42.3%) and Portugal (41.9%) recorded the highest shares compared to the EU-25 average of 33.8%, while

Belgium (28.8%), Germany (29.7%) and the Czech Republic (31.4%) registered the lowest shares.

Regarding social contributions, the largest shares were observed in Germany (44.4%), the Czech Republic (41.6%) and France (40.2%), compared to an average of 34.5% for the EU-25, whereas Denmark (5.4%), Ireland (19.1%) and the United Kingdom (21.0%) recorded the lowest shares of social security contributions. Denmark's social security system is, in fact, almost exclusively financed out of general taxation.

## Table 8 – Ratio of tax to GDP in terms of main tax types

| Countries | Personal and corporate income tax | Social security payments | Wages and salaries | Real estate | Goods and services | Others |
|---|---|---|---|---|---|---|
| Denmark | 28.90 | 1.70 | 0.20 | 1.70 | 16.20 | 0.00 |
| Iceland | 16.70 | 3.10 | – | 2.80 | 15.30 | 0.10 |
| Turkey | 7.70 | 6.10 | – | 0.90 | 14.60 | 1.80 |
| Hungary | 10.10 | 11.60 | 1.20 | 0.70 | 14.30 | 0.30 |
| Finland | 18.60 | 12.20 | – | 1.10 | 13.90 | 0.00 |
| Portugal | 9.40 | 9.20 | – | 1.10 | 13.90 | 0.20 |
| Norway | 19.00 | 9.90 | – | 1.00 | 13.60 | 0.00 |
| Greece | 8.90 | 11.80 | – | 1.70 | 13.40 | 0.10 |
| Sweden | 17.70 | 15.10 | 2.40 | 1.60 | 13.30 | 0.20 |
| Austria | 13.00 | 14.70 | 2.70 | 0.60 | 12.40 | 0.50 |
| New Zealand | 20.60 | – | 0.30 | 1.80 | 12.30 | – |
| Holland | 10.60 | 13.90 | – | 2.10 | 12.10 | 0.20 |
| Poland | 9.50 | 9.50 | 0.20 | 1.40 | 12.00 | – |
| Czech Republic | 9.70 | 17.40 | – | 0.60 | 11.70 | 0.00 |
| U.K. | 13.50 | 6.10 | – | 4.30 | 11.70 | – |
| Luxembourg | 15.30 | 11.20 | – | 3.40 | 11.70 | 0.10 |
| Belgium | 18.30 | 14.70 | – | 1.50 | 11.40 | 0.00 |
| Italy | 13.80 | 12.50 | – | 2.20 | 11.40 | 2.60 |
| Slovak Republic | 7.00 | 14.30 | – | 0.50 | 11.30 | – |
| France | 10.50 | 16.30 | 1.10 | 3.30 | 11.20 | 1.60 |
| Ireland | 11.10 | 4.30 | 0.20 | 1.50 | 11.20 | – |
| Germany | 10.10 | 14.50 | – | 0.80 | 10.50 | 0.00 |
| Spain | 10.40 | 12.60 | – | 2.40 | 10.20 | 0.10 |

| Countries | Personal and corporate income tax | Social security payments | Wages and salaries | Real estate | Goods and services | Others |
|---|---|---|---|---|---|---|
| Australia | 17.40 | – | 1.70 | 2.80 | 9.50 | – |
| South Korea | 6.20 | 4.60 | 0.10 | 3.10 | 9.50 | 0.90 |
| Canada | 15.70 | 5.20 | 0.70 | 3.30 | 8.90 | 0.20 |
| Mexico | 5.20 | 3.20 | 0.30 | 0.30 | 8.90 | 0.20 |
| Switzerland | 13.10 | 7.80 | – | 2.60 | 6.90 | 0.00 |
| Japan | 7.90 | 9.90 | – | 2.80 | 5.20 | 0.10 |
| USA | 11.80 | 6.90 | – | 3.20 | 4.60 | – |
| OECD total | 12.90 | 9.30 | 0.40 | 1.90 | 11.40 | 0.30 |
| OECD America | 10.90 | 5.10 | 0.30 | 2.30 | 7.50 | 0.10 |
| OECD Pacific region | 13.00 | 3.60 | 0.50 | 2.60 | 9.10 | 0.30 |
| OECD Europe | 13.20 | 10.90 | 0.30 | 1.70 | 12.40 | 0.30 |
| EU-19 | 13.00 | 11.80 | 0.40 | 1.70 | 12.30 | 0.30 |
| EU-15 | 14.00 | 11.40 | 0.40 | 1.90 | 12.30 | 0.40 |

Source: OECD *Revenue Statistics of OECD Member Countries* Paris 2004 (Table 6).

### *Inefficiencies in the tax inspection system*

Another aspect of harmful tax practices is the inefficiency of the tax inspection system. Governments may deliberately weaken the tax inspection system. In this way, taxpayers who avoid paying tax become strong supporters of their government. At the same time, foreign investors are thus attracted to domestic markets. Table 9 shows that the number of tax inspectors has been decreasing but, at the same time, the number of inspected enterprises has been decreasing at twice the rate. The annual audit performance of an inspector was 332 in 1985, whereas it was 644 in 2003. In other words, the number of inspectors has reduced but the number of inspected enterprises has reduced twice as quickly in the last twenty years.

### Table 9 – Tax inspections in Turkey

| Year | Inspectors | Number of taxpayers who are inspected | Ratio of inspected taxpayers to the number of inspectors (inspection performance) |
|---|---|---|---|
| 1985 | 12 174 | 4 038 400 | 332 |
| 1986 | 11 593 | 4 293 364 | 370 |
| 1987 | 13 110 | 4 087 437 | 312 |
| 1988 | 16 396 | 5 315 475 | 324 |

| Year | Inspectors | Number of taxpayers who are inspected | Ratio of inspected taxpayers to the number of inspectors (inspection performance) |
|---|---|---|---|
| 1989 | 17 446 | 4 382 291 | 251 |
| 1990 | 16 756 | 5 866 550 | 350 |
| 1991 | 15 054 | 5 351 730 | 356 |
| 1992 | 15 313 | 5 966 359 | 390 |
| 1993 | 10 757 | 5 599 709 | 521 |
| 1994 | 5 894 | 4 254 838 | 722 |
| 1995 | 4 776 | 4 127 233 | 864 |
| 1996 | 4 937 | 4 647 853 | 941 |
| 1997 | 4 608 | 3 898 920 | 846 |
| 1998 | 4 148 | 4 460 098 | 1 075 |
| 1999 | 4 107 | 4 731 624 | 1 152 |
| 2000 | 3 590 | 5 430 971 | 1 513 |
| 2001 | 3 797 | 3 448 523 | 908 |
| 2002 | 3 094 | 2 866 037 | 926 |
| 2003 | 4 507 | 2 903 111 | 644 |

Source: author, based on data from the Ministry of Finance of the Turkish Republic.

## Conclusion

High rates of inflation lasting until 2002, and which had become chronic after 1970, can be considered as secret taxation. In the same way, the contraction experienced in the markets as a result of the economic crisis between 1994 and 2001, the 'inflation tax' and the increasing tax burden have all raised the issue of poverty as a serious problem. In this period, the foreign capital inflows which were the intended target of tax reductions have not been realised to the desired degree.

The rising demand for funds in the face of the constant public sector deficit has been largely covered by increases in the tax burden, in spite of the deliberate policy of tax reductions during the last decade. According to OECD tax figures for 1995-2000, Turkey's tax burden rapidly increased from 22.6% to 33.4%, whereas the average tax burden of OECD countries increased from 36.1% to 37.4% during the same period. Taking economic activities into account, the tax burden in Turkey is growing incoherently, increasing the burden on certain categories of taxpayer and thus resulting in an inappropriate taxation environment for investors. In addition, permanent budget deficits and a growing shadow economy have persistently delayed the restructuring of taxation into a strategic framework which is concordant with medium to long-term economic and social perspectives.

Indirect taxes account for the largest part of total tax revenues in Turkey and are still tending towards increase. Indirect taxes in Turkey are, amongst others: value added tax; customs tax; special consumption tax; stamp duty; and excise tax (banking and insurance transaction tax). The share of indirect taxes in total tax revenues in Turkey increased to 66% in 2002 from 48% in 1990. This indicates that the failure to collect direct taxes has resulted in a higher indirect tax burden than that which applies in OECD and EU countries.

The steadily increasing failure rate in the collection of income and corporate taxes advances some significant points. As of 2001, the share of withheld taxes in income tax reached 37% in wages and 95% in total. The concentration of income tax in the same period indicates that the leading 1 500 corporate taxpayers (0.26% of total corporate taxpayers) provide 85% of total corporate taxes. This indicates that the development of a systematic structure in the taxation system is being hampered, that the legality principle of taxation is being harmed and that the current taxation system provides an incentive towards evasion. International comparisons offer a better understanding of the current situation: the average corporate tax rate levied on pre-tax profits in Turkey is the same as in the UK and lower than in the US. Ireland and Hong Kong, where the lowest taxes are levied on corporate profits, practise half the level of Turkey's rates.

After the end of 1999, Turkey has been going through an intensive structural reform programme in line with IMF-supported economic programmes. In an economy where the ratio of public debt to GNP stands at just beneath 100% and the sum of tax revenues barely covers interest payments, there is not a single viable policy to put the economy on a new growth path other than realising these structural reforms. This fact is now well understood by the public and by the politicians and the structural reforms, which will pave the way for a new economic order, have started to be realised over the last three years.

Sustainable economic growth without the risk of experiencing economic crisis necessitates a long-term solution in which entrepreneurship is one of the crucial elements. The problems in relation to human resources, the financial infrastructure, and the legal, social, cultural and political environments hinder the growth of entrepreneurship and, therefore, innovation. In terms of human resources, Turkey is a country with a very young population: 30% of the total population is under the age of 14. Average unemployment (9%) is not high, relatively speaking, but most unemployed people are below the age of 30 while the majority of women are employed in the agriculture sector.

Finance is one of the main problems for firms in Turkey. The total amount of credit given to small- and medium-sized firms is very low. Venture capital is one of the critical support mechanisms for the development of innovative and technology-based firms but is almost non-existent in Turkey. Financial instruments and institutions are not yet well-developed in Turkey, so financing is seen as the most important barrier to technological development. Turkey also imposes very high corporate and personal income taxes, while the social security cost of employees and sales taxes is also high.

In addition, Turkish entrepreneurs face many problems in starting, running and closing down a firm due to bureaucracy and corporate regulations, one of the problems of which includes uncertainty about shareholder minority rights. Turkey also lacks regulations in copyright and patent protection. In terms of the social, cultural and political environments, most entrepreneurs believe that the public perceives entrepreneurs to be opportunistic people. However, survey results show that the majority of the population in Turkey wishes to be an entrepreneur. Even so, co-operation among industries or between universities and the private sector is not well-developed. In terms of incentives and support mechanisms, education on entrepreneurship has been a very recent event and is still quite limited. Supporting institutions for entrepreneurs do not have satisfactory human and capital resources, while the number of consultancy firms serving entrepreneurs is inadequate. Turkey thus needs to take the necessary steps in order to attain an entrepreneurial economy since it has great potential for growth with its two precious resources for entrepreneurship, namely: women; and young people.

Turkey welcomes foreign investment but maintains a number of formal and informal barriers. Foreign equity is restricted to 20% in broadcasting companies and 49% in aviation, maritime transportation and value-added telecommunications services companies. According to the US Department of Commerce, legislation passed in June 2003 eliminated minimum capital requirements for foreign investors, provided national treatment to foreign investors purchasing property and replaced the screening of foreign investment with a notification system; however, implementing regulations have not been enacted and obstacles to investment include:

> high inflation political and macroeconomic uncertainties, excessive bureaucracy, weaknesses in the judicial system, high and inconsistently collected taxes, weakness in corporate governance, arbitrary decisions taken at the municipal level, and frequent, sometimes unclear changes in the legal and regulatory environment.

The same source reports that foreign investment has amounted to less than 1 per cent of GDP over the past decade, which is far below Turkey's potential. The International Monetary Fund reports that both residents and non-residents may hold foreign exchange accounts. There are virtually no restrictions on payments and transfers although some restrictions and reporting requirements apply to capital transactions (The Heritage Foundation, 2005).

The EU does not have the right to tell member states how to design their tax systems; it only sets rules for those taxes that affect the functioning of the single market, such as value added tax. However, the EU does have the right to clamp down on industrial subsidies and other state aids that undermine competition. The Commission has tried to classify some tax incentives as a form of illegal state aid, in particular those that are available to one sector or company but not another. In 1999, an expert group listed more than 60 such 'harmful' tax measures in the EU-15 (Barysch, 2004).

The macroeconomic effects of tax competition strategies have taken on an undesirable fashion in Turkey. Tax rates have been cut but the tax burden has increased because of the decrease in gross national domestic product, while there remain considerable barriers to the increase in the flow of foreign direct capital. What can be done from now on? Some of the basic reforms that could have an impact in this direction are as follows:

- establish a new role for the functioning of the state in terms of economic activities
- put an end to the state monopoly in some sectors through opening these up to competition
- privatise services provided by the state, with the exception of clearly-defined common interest ones
- restructure public institutions and public management by implementing some basic principles of public reform: transparency; accountability; productivity; merit; and participatory management
- entrepreneurship should be included among the top government priorities
- a clear vision for entrepreneurship must be both developed and communicated well so that it can be used to integrate industrial and technology strategies and policies
- bureaucratic barriers to the establishment and closing down of firms should be removed
- regulations regarding intellectual property rights should be improved and enforced
- new and specialist organisations are needed to perform technology transfer activities
- the informal economy must be transited into the formal economy
- political stability has to be established. This will also bring sustainability in economic policies. Technological innovation should be recognised as the major driver of economic growth and social development; new mechanisms for supporting innovation and industrial upgrading are needed if productivity growth is to be sustained; and Turkey has to promote a culture open to innovation and creativity
- seed capital/start-up funds linked to viable intermediaries should be established and research structures strengthened
- funding measures for ‘knowledge carriers’ or mentoring schemes in firms should be developed
- the diffusion of knowledge in the economy should be strengthened
- funding should be provided for collaborative projects involving groups of smaller firms with research infrastructures
- the necessary measures should be taken by the government to remove the obstacles which inhibit the reduction of the high intermediate spreads of the banking sector
- the government should reduce the heavy indirect taxes applicable to banking operations
- unfair competition caused by the zero-risk weight and tax advantages of government bonds should be avoided
- the tax burden on corporations and individual businesses should be equalised

- publicly-listed companies should benefit from lower taxation in order to support the enhancement of the capital market
- the inflationary effect on the tax base should be eliminated
- consolidated group taxation should be available to companies
- taxes on investment income should be harmonised
- the investment incentives system should be rationalised
- the system of credits against income tax should be reformed
- the high tax and social security cost burden on wages should be relieved
- provisions for severance payments, or other employee-related future liabilities, should be deductible from corporation tax.

## References

Barysch, Katinka (2004) 'Is Tax Competition Bad?' *CER Bulletin* Issue 37, August-September 2004 http://www.cer.org.uk/articles/37_barysch.html [accessed 12 March 2005].

Edwards, Chris and Veronique de Rugy (2002) 'International Tax Competition – A 21st-Century Restraint on Government' *Economic Freedom of the World: 2002* Cato Policy Analysis No. 431, Annual Report, April, Vancouver.

Edwards, Chris (2005) 'International Tax Competition' *Cato Handbook on Policy* http://www.cato.org/pubs/handbook/hb109/hb_109-13.pdf [accessed 12 March 2005].

Engin, _smail (2002) 'Vergi Rekabeti: Avrupa Birligi ve Turkiye' *Avrupa Birligine Gecis Sureci ve Turk Kamu Maliyesinin Uyumu* XVII Turkiye Maliye Sempozyumu, Mayıs.

Eurostat (2005a) *Tax revenue in EU Member States: Trend, level and structure 1995-2003* Statistics in Focus: Economy and Finance, March 2005.

Eurostat (2005b) *News Release* 15/2005, 28 February 2005, http://europa.eu.int/comm/eurostat/ [accessed 12 March 2005].

Hallerbeg, Mark & Scott Basinger (1997) *Internationalization and Changes in Tax Policy in OECD Countries: The Importance of Domestic Veto Players* unpublished manuscript, February.

Heritage Foundation (2005) *2005 Index of Economic Freedom* http://www.heritage.org [accessed 10 February 2005].

Laband, David N (2000) 'Harmful Tax Practices? Ideas on Liberty' The Foundation for Economic Education, published in *The Freeman* October 2000. http://www.fee.org/vnews.php?nid=4758&printable=Y [accessed 15 March 2005].

Mitchell, Daniel J (2000) 'A Proposal To Eliminate Tax Competition Would Mean Higher Taxes and Less Privacy' *The Heritage Foundation Backgrounder* No. 1395, September.

OECD (2000) *Towards Global Tax Co-operation* Report to the 2000 Ministerial Council Meeting and Recommendations by the Committee on Fiscal Affairs, Paris.

OECD (2004) *Revenue Statistics of OECD Member Countries* Paris.

Owens Jeffrey (2005) *Curbing Harmful Tax Practices* http://www1.oecd.org/publications/observer/215/e-owens.htm [accessed 12 March 2005].

Republic of Turkey Prime Ministry State Planning Organisation (2001) *Economic and Social Indicators (1950-2001).*

Republic of Turkey Prime Ministry State Planning Organisation (2004) *Basic Economic Indicators* (July 2004).

T.C. Maliye Bakanlığı (2005) 2005 Mali Yılı Butce Gerekcesi.

Turkish Association of Industrialists & Businessmen (TUS_AD) (2003) *A Candidate Country Experience* Turkey's National Report, UNICE Reports on the Progress of the Lisbon Strategy, 5 March 2003, Brussels.