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The Role of the State Budget: An Evaluation of Public Expenditures and Taxes in Turkey

Erdal Eroğlu, Özhan Çetinkaya

Abstract**—**The purpose of this paper is to show how state plays a regulatory role in the relations of distribution by analyzing tax and expenditure in Turkey. This paper has two main arguments. First, state intervenes in economic and social life via budget policies and steers the relations of distribution within the scope of the reproduction of the capital accumulation and legitimacy. Secondly, a great amount of public expenditure benefits capital owners while state gains its tax income mainly from low and middle income groups.

Keywords**—**Distribution, public expenditure, state budget, taxes.

I. Introduction

THE systemic crises in the global economy and politics have brought about the discussions on whether the capitalist system is an economic and social organization founded on exploitative relation. The discussions mainly focus on the ***legitimacy*** problem of the capitalist system. This problem has become more socially visible as poverty is experienced more in daily life. In fact, social and economic indicators suggested a negative table in most developed or underdeveloped countries, mainly in European countries, due to the contraction in the global economy following the global financial crisis of 2008. The economic policies of governments against increasing poverty and deepening social inequality failed. In addition, global warming, environmental pollution, ethnical and religious conflicts either regional or local, poverty, infectious diseases that have become more common recently, and global immigration all have adversely affected the social welfare. All this negative process, on the other hand, caused more social protests. The successive protests in the USA and Europe called the "occupy" protests reflected the deep unrest and anger against the capitalist system.

The attitudes of the actors changed just as the rules of the game in the social and economic life did in time. The negative overview of the social indicators is a better summary of the situation. Today, the poverty rate in the world is close to 15%, which means about 1 billion people live on less than $1.25 a day. While the rate of the poverty among the youths is 21.8%, it is 9.2% for the old [1]. This explains why the young are angry with the political actors. Almost the same negative situation can be observed when unemployment rates and income inequality are considered. Income and welfare inequality between the rich and the poor is becoming worse. When the figures are analyzed based on the macro-economic indicators, it can be argued that there is a welfare loss in the world following the 2008 global crisis.

Erdal Eroğlu, Res. Assistant and Özhan Çetinkaya, Prof. Dr. are with the Faculty of Economics and Administrative Sciences, Uludağ University, Bursa, Turkey (e-mail: erdalerogluuu@gmail.com, ozhanc@uludag.edu.tr).

In order to understand how the capitalist system gets organized, it is important to analyze the roles of the state. A deep analysis on how the system function shows that state power is highly important to the reproduction of economic processes [2]-[5]. The crucial role of the state power is based on three main factors [3]. The first and most fundamental element of state power is that state has its own judicial power on its own land. The second element that is basic to proper functioning of capitalism is that states have legal rights to determine the rules that social production relations are to abide by within the scope of their own legal areas. The last element is the taxing power of states. States have to spend while fulfilling their function of keeping order and also find sources to be able to cover the expenses. States manage this process with budget. In general terms, budget is the document showing the decisions of states on revenue collection and spending. The numerical data it contains on expenditures and revenues have some statistical references summarizing the economic and social structure of a society [6]. In this regard, it is important to find answers to the questions "Who benefits from public expenditures and who pays taxes" to be able to analyze the economic crises and social problems and also offer solutions. The purpose of this paper is to reveal the role of the capitalist state with an analysis on public expenditures and the compositions of taxes within central administration budget. First, this paper will present an analysis on the relation between tax and expenditure and capital accumulation, focusing on the role of the state and the function of the budget. Then this theoretical relation will be explained based on the tables showing the composition of Turkish budget in terms of expenditures and revenues.

II. The Role of the State and Budget

It is possible to make a judgment about a phenomenon by analyzing it from the emergence of that phenomenon. All objects, phenomena, processes, and their conceptual statements can only exist in universal, multidirectional, and variable connections. Everything is conditioned by other things surrounding it. That is why we cannot explain phenomena as a result of events happening randomly or an accumulation of single events [7]. Without doubt, it is necessary to reveal internal and external relations conditioning, determining, and affecting the phenomenon itself. Just like goods and money, the concept of state is not a simple object or an all-purpose organization but a total of complex social relations [4]. It is not possible to understand that complex structure without analyzing the dialectical relation between the social structure and the historical development of state and its intervention tools.

The state takes different shapes in accordance with the changing structure of capitalism [4], [8]. The underlying reason for this change is to regulate and audit social relations according to current production relations [4]. How and within which scope state shapes this process depends on economic circumstances and primarily on the balance of social power. The activities of the state, within the historical process of the capitalism, are mainly determined by its type and draw its strength from social class and economic reproduction processes [2], [4]. In this regard, it can be argued that the state has two main functions. The first one is accumulation, which was discussed by the Marxist theories of state and by the regulation school. The second function is legitimacy to ensure the social reproduction of the capitalist system, which was emphasized by A. Gramsci and L. Althusser and also in the discussions on the state [9], [10]. Public finance seems to be a field in which this reproduction process can be observed and analyzed. In this respect, budgets which help closely follow tax, spending, and borrowing policies are of vital importance.

Capitalist states directed their focus on ensuring legitimacy to manage the social inequality and polarization that deepened as a result of the neo-liberal policies implemented in the new accumulation regimes that were developed as a solution to the systemic crises especially in the 1970s. As a solution to political and economic crises, capitalist states frequently use military coups, paramilitary police power, and legal implementations that have prohibitions or introduce fiscal policies that help capital re-appreciation via taxes and expenditures. Such practices of the capitalist states are deeply felt in the social area (daily life) and become visible and materialize via expenditures in the state budget. In other words, public finance is a field which enables us to observe and analyze this reproduction process. Budgets with which tax, spending and borrowing can be followed are of great importance.

Within traditional doctrine, budgets are indicated as annual action plans in which expenditures are determined first and revenues are collected for these expenditures in an environment where political power functions independently. This understanding caused the adoption of the idea that budgets are only an economic tool indicating financial statements of a certain period of a state. However, it is seen that budgets have significant impacts on social and economic lives when the outcomes of the budget implementations are taken into consideration [6]. Therefore, it can be claimed that the traditional doctrine ignores the actual function of budgets, which refers to the fact that budgets are the most important ideological and political tools of states regulating the social and economic life beyond their being an economic tool [6].

III. The Political Economy of Public Expenditures and Taxes

The capitalist system is founded on capital accumulation. For the capital accumulation, it is essential to produce goods and fulfill the prerequisites for easing the exchange of these goods [11]. The role of the state in the success of this process should be historically taken into consideration. In other words, the state takes a regulative role in the reproduction of the capital accumulation with public expenditures and taxes. How the state intervenes in this process may change based on the type of the state and the conjuncture. This function of the state emerges during the period when the capital depreciates in value. These periods are characterized with economic crises and social depression.

The framework that James O'Connor and I. Gough offered to discuss the relation between public expenditures and capital accumulation within the scope of the financial crisis of the state gives an insight into the capitalist state's accumulation regime. In other words, the state takes an active role in determining the relation of distribution between the labor and the capital. Within this scope, the state takes a more active and autonomous role with public expenditures and taxes [12], [13].

In his book 'The Financial Crisis of the State', James O'Connor argues that the state fulfills its two main functions that are in conflict: the function of *accumulation* and the function of *legitimization* [12]. According to O'Connor', one function of the state in a capitalist society is to contribute to the capital accumulation in the private sector while another function is to ensure legitimization of the capitalist system [12]. While fulfilling these functions, the capitalist state makes several expenditures. O'Connor argues that state expenditures have two aspects that refer to two functions of the capitalist state. These are social capital expenses and social expenses [12].

Social capital expenses, which directly contribute to the capital accumulation, are analyzed under two categories: social investment and social consumption. "Social investment consists of projects and services that increase the productivity of a given amount of labor power and, other factors being equal, increase the rate of profit" [12]. An example of this is fixed capital and technological and infrastructural investment. "Social consumption consists of projects and services that lower the reproduction costs of labor, and other factors being equal, increase the rate of profit. An example of this is social insurance which expands the reproductive powers of the work force while simultaneously lowering labor costs" [12]. Health care and education expenses are also an example of this.

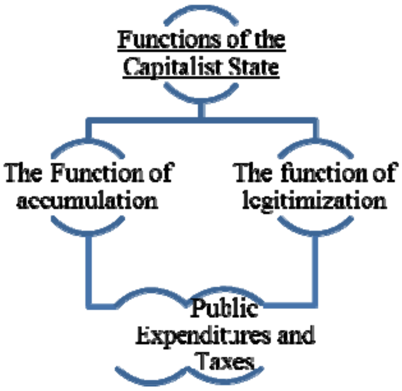

Fig. 1 Functions of the Capitalist State. This was compiled from the analysis of J. O'Connor on public expenditures [12]

According to O'Connor, social spending includes social projects and services that will ensure the legitimacy of the system in a way to come to a social agreement. This spending refers to the expenses made for the production of the services for the domestic security to establish social control like unemployment insurance, pensions, social security, services of justice and also the military expenses [12], [14]. Some of the state's expenditures can fulfill both of these functions. For example, the state decreases the reproduction cost of labor power (social consumption expenditures) with health care expenses and also ensure the legitimacy of the system as it provides its citizens with health care services [15]. According to O'Connor, the main purpose of social security is misunderstood. Although expenditure for social security enhances the social welfare, it actually aims to ensure social and economic stability in terms of employment, which means that the capitalist system is secured. According to O'Connor, in most capitalist states, this dual relation (accumulation and legitimization) is in conflict. The final result of public expenditure serves these two purposes [12].

The state needs revenues to make public expenditure. Public revenues from different sources meet this need. When the historical development of the state is taken into consideration, it is seen that the spending compositions change according to the historical period just as the sources for public revenues do [16]. Tax has become the most important source for public revenues with the development of the modern state [16]. Within the literature on public finance, taxes have different classifications which are as follows: revenue-expenditure-wealth taxes based on the source of taxation; direct-indirect taxes based on the economic activities; specific-ad valorem taxes based on the subject of taxes; subjective-objective taxes based on tax basis; regressive-fixed-progressive taxes based on the rates [17]. Today, tax revenue is mainly composed of indirect taxes imposed on consumption, followed by income taxes although this ranking may be different in some countries. Economically, after-tax income is composed of consumption and saving. When the recent decline in the savings of low and middle income households is considered, it is clear that these households consume almost all of their income. As a result, the ratio of the taxes (expenditure tax) they pay to their income also increases. This indicates that households contribute to capital accumulation by consuming and generate revenue for the state.

Although the power has changed throughout the history, tax has always been the source of life for the whole executive power like the bureaucracy, army, church, and court. Powerful government and heavy taxes are synonymous [18]. From this perspective, taxes are the most important indicator of the legitimacy of the ruling power. In this regard, it can be argued that when governments tend to increase income taxes, they go through a legitimacy problem. Taxes, public spending, and borrowing that are the most important tools of public finance played an important role in making capital accumulation in favor of the capital owners during the establishment process of capitalism. The tools of public finance that are used to increase social welfare in classical public finance are seen as tools for regulation and capital accumulation by the critical literature [12], [19].

IV. The General Framework of Turkish Economy

Before analyzing public expenditures and the compositions of tax income in Turkey, it is important to mention the macro-economic transformation in the aftermath of 1980 and Turkey's current economic and social indicators. In the 1980s, Turkey was economically instable and was politically under military domination. Therefore, 1980 is accepted as the turning-point in the analyses on the structural transformation of Turkish economy [20], [21]. During this period, Turkey signed a stand-by agreement, a program based on the liberalization of the public finance and trade, with the IMF. The neo-liberal program put into force in 1980 focused on enhancing export, liberalizing the foreign trade, financial liberalization, all of which required financial reforms, reforms on tax and spending, and also privatization. In this regard, Turkey introduced a financial accumulation model in the 1990s [22]. With this model, Turkey had an outward-oriented macroeconomic outlook, which brought about financial speculation in economic activities. The foreign exchange rate became more vulnerable to short-term capital movements rather than the trade of goods. As a result, when Turkish economy entered the 1994 crisis, a financial model characterized with high real interest rates and low foreign exchange rates (over-valued currency) was in effect; its trade gap was widening; speculative revenues took primacy; there was the resulting loss of confidence [22]. In 1998, Turkey entered into a transformation with the 17th, 18th, and 19th Stand-By Agreements that focused on neo-liberal regulations in economic and institutional fields and would last by the end of 2008. "Fight against Inflation Program" (2000-2002) aimed at controlling public sector deficits, decreasing interest rates and inflations and "Program for Transition to Strong Economy" (2002-2004) including structural and institutional regulations were put into practice in this period [22]. Following the financial crisis of February 2001, Turkey adopted a new program called "Transition to a Strong Economy Program" in order to set up an infrastructure for restructuring public management and public economy [22]. By basing its monetary policy on higher real interest and lower exchange rates compared to the international markets, the model accelerated short-term capital inflow. Within the framework of financial policies, tight fiscal policies and privatization policies focusing on primary surplus target started to be implemented. In addition, labor markets were deregulated to increase competitiveness; public services were restricted to achieve primary surplus target; private sector was promoted in areas with high surplus value such as education and health, and legal, institutional and constitutional regulations required for all these arrangements were introduced.

Following the 2001 fiscal crisis, a new economic and social era started for Turkey whose most notable character was known as increasing borrowing based on widening consumption at all levels. In 2008, Turkey was affected by the global economic crisis just like the other economies and entered into a recession in contrast to the growth in the previous period [23], [24].

Table I on the central administration budget realizations shows that in 2014 the expenditures realized were 448.752.337 TL (about $150 Billion), the revenues were 425.382.787 TL (about $130 Billion), and the budget deficit was -23.369.550 TL (about $7 Billion). As seen in the table, expenses for staff, current transfers, and interest expenditures mostly make up of public expenditures. Taxes have the biggest share in public revenues [24].

TABLE I
CENTRAL ADMINISTRATION BUDGET REALIZATIONS (BUDGET BALANCE) 2009-2014 [24]

	2009	2010	2011	2012	2013	2014
Expenditures	268.219.185	294.358.724	314.606.792	361.886.686	408.224.560	448.752.337
1.Primary Expenditures	215.018.291	246.059.962	272.375.234	313.470.639	358.238.510	398.839.020
Staff Expenses	55.946.887	62.315.338	72.914.142	86.462.710	96.235.367	110.370.088
Social Security Support Contribution	7.208.283	11.062.515	12.849.764	14.728.208	16.306.461	18.928.941
Purchase of Goods and Services	29.798.912	29.184.905	32.797.259	32.893.602	36.386.232	40.800.579
Current Transfers	91.975.805	101.857.081	110.498.851	129.477.019	148.742.593	162.282.182
Capital Expenses	20.071.509	26.010.306	30.905.295	34.365.315	43.767.278	48.200.817
Capital Transfers	4.319.248	6.772.643	6.738.618	6.006.362	7.665.522	7.706.603
Loan	5.697.647	8.857.174	5.671.305	9.537.423	9.135.057	10.549.810
Reserved Allowance	0	0	0	0	0	0
2-Interest Expenditures	53.200.894	48.298.762	42.231.558	48.416.047	49.986.050	49.913.317
Revenues	215.458.341	254.277.435	296.823.602	332.474.895	389.681.985	425.382.787
1-General Budget Revenues	208.610.436	246.051.496	286.554.013	320.535.674	375.563.758	408.675.837
Tax Revenues	172.440.423	210.560.388	253.809.179	278.780.848	326.169.164	352.514.457
Enterprise and Ownership Revenues	9.948.230	9.804.032	9.063.090	13.986.088	14.311.681	16.125.358
Grants and Aids and Private Revenues	807.329	965.516	1.068.362	1.651.698	1.095.571	1.281.115
Interests, Shares and Fines	23.057.791	21.114.218	19.739.446	22.707.958	23.651.345	28.301.735
Capital Revenues	2.044.436	3.375.554	2.529.671	2.053.986	10.105.296	9.548.532
Debt Recovery	312.227	231.788	344.265	1.355.096	230.701	904.640
2-Special Budgeted Administrations' Own Revenues	5.036.830	6.333.187	8.174.114	9.621.690	11.445.166	13.524.159
3-Regulatory and Supervisor Agencies' Revenues	1.811.075	1.892.752	2.095.475	2.317.531	2.673.061	3.182.791
Budget Balance	-52.760.844	-40.081.289	-17.783.190	-29.411.791	-18.542.575	-23.369.550

V. DISTRIBUTION OF TAXES AND EXPENDITURES IN TURKISH BUDGET

Budget revenues are classified under 7 categories in Turkish budget. Just like many other economies in the world, tax revenues constitute most of the budget revenues. The ratio of tax revenues to budget revenues is about 90%. This indicates that most of the public expenditures, almost all, are financed with taxes. A deeper analysis on tax revenues (2014) shows that Value Added Tax and Special Consumption Tax, which are indirect taxes on consumption, have the biggest share in tax revenues, which accounts for 35% of total revenues. When household consumption [25], borrowing, and savings rates [26] in Turkey are analyzed, borrowing is higher than disposable income [23], [27] and saving rates of low and middle income groups are low and close to zero. Based on the figures, it can be argued that low and middle income groups consume almost all of their income. When the consumption practices of households are analyzed, food and non-alcoholic beverages account for 19.7 percent of household income. The consumption of households on transportation and education increased to 18.7 and 2.4 respectively. Housing and rent take the first place in household consumptions [25]. Households have spent all their tax-after income and have borrowed more than they earn in recent years. The financial stability reports show that the ratio of borrowing to household incomes increased from 4.7% in 2002 to 51.7% in 2011 [27]. In addition, an analysis on tax burden in Turkey (tax revenues/GDP) shows that tax burden has progressively increased in the last decade [28]. Since 2000, the tax burden in Turkey has increased from 24.2% to 29.3% [28]. The taxes on goods and services make up the highest tax burden in Turkey. In other words, they are the indirect taxes argued by some studies in the literature to have a negative impact on tax equity.

Accounting for 18%, income taxes that are mostly collected from wage groups take the second place in tax incomes. Income tax based on declaration accounts for 4% of total income taxes while income tax stoppage accounts for 93%. Corporation income tax accounts for 7% of total tax income. The table shows that most of the taxes in Turkey are on consumption and collected from wage groups. Based on the calculation according to legal regulations, the tax burden on employers is high, but the realized tax figures suggest a different table. As seen, the share of corporation income tax in total tax revenues is quite low in Turkey (about 7%), lower than most OECD countries (about 9%) [29]. Corporation tax rate in Turkey is behind OECD countries and has been 20% since 2006. Therefore, it can be argued that those who pay all their taxes regularly are the wage groups. Having a high level of informal economy and not expanding the tax base cause the continuity of this situation. On the other hand, when the income distribution in Turkey is analyzed, it is seen that those having half of the total income account for the highest 20% group of the population. According to the Income Distribution and Living Conditions Statistics announced by Turkish Statistical Office, the share of the top quintile by equivalised household disposable income was 45.9% in 2014 while the share of the bottom quintile was 6.2% [30]. Unequal income distribution and unfair taxation have become one of the most important problems of Turkey.

TABLE II
CENTRAL ADMINISTRATION TAX REVENUES/GENERAL BUDGET REVENUES 2009 AND 2014 (%) [24]

	2009	2010	2011	2012	2013	2014
I-Tax Revenues	83	86	89	87	87	86
1. Taxes on Income and Wealth	27	25	26	27	25	26
a) Income Tax	18	16	17	18	17	18
b) Corporation Income Tax	9	9	9	9	8	7
2.Taxes on Property	2	2	2	2	2	2
3. Goods and Service Tax	35	37	36	36	36	35
a) Value-added tax	10	11	10	10	10	9
b) Special Consumption Tax	21	23	22	22	23	22
4.International Trade Tax	14	13	19	17	18	17

Tax income sharply increased in the aftermath of the 2008 global crisis, which should be taken into consideration while analyzing tax income in Turkey. The highest increase was observed in Value Added Tax and Special Consumption Tax. While the income tax increased after the 2008 global crisis, corporation income tax remained at the same level. All this shows on which income groups the social cost of the measures taken against the global crisis was imposed.

Just like the unfair distribution of tax income in Turkish budget, public expenditures are not fairly distributed. According to budget data of 2014, current transfers account for 31%, the highest share in expenditures. Under the category of current transfers, treasury grants (treasury grants for social security institutions) have the biggest share. Interest expenses account for 22%, the second highest share in expenditures. Interest expenses for domestic borrowings take place on the top of this category. As the state is one of the biggest purchasers in the market, it is not surprising that the purchase of goods and services has a high share in expenditures. An analysis on public expenditures at the level of functional codes suggests the following results. Public expenditures are analyzed under 10 categories at functional level. An analysis in this regard shows that social security and social aid expenses, public order and safety expenses that legitimize the system by ensuring social cohesion and agreement account for 30% of the total expenditures, which is an example of what O'Connor argues. On the other hand, expenditures on health care services and training that are necessary for the reproduction of labor force and decrease production costs- social consumption expenses in O'Connor's term- account for 24% of the total expenditures, which is quite high. Another item that draws attention is public order and safety expenditure. Its share in budget revenues increased from 6% in 2009 to 7.5% in 2014. The amount of the expenditures on public order and safety services increased from 14 billion TL in 2008 to 34 billion TL in 2014.

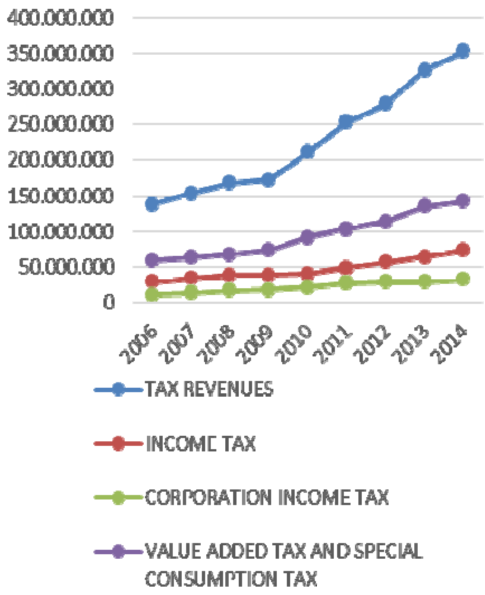

Fig. 2 Tax Revenues 2006-2014 (The data were taken from [24])

TABLE III
CENTRAL ADMINISTRATION BUDGET EXPENDITURES RATE BETWEEN 2009 AND 2014 (FKOD) % [24]

	2009	2010	2011	2012	2013	2014
General Public Services	33	30	29,2	29	28	28
Defense Services	5,4	5	5	5	4,8	4,7
Public Order and Safety Services	6	6,4	7,1	7,3	7,2	7,5
Fiscal Affairs and Services	12,3	14	14	14	14,1	14
Environmental Protection Services	0	0	0,1	0,1	0,1	0,1
Settlement and Public Welfare Services	1,3	2,2	1,7	1,5	1,7	1,2
Health care Services	5,8	5,5	6	4,3	4,8	4,8
Leisure, Culture and Religion Services	1,7	1,8	2,1	2	2,1	2,2
Training Services	13,3	14	15,4	16	16	17
Social Security and Social Aid Ser.	21	20,3	19,3	21	21	21
Total	100	100	100	100	100	100

VI. CONCLUSION

An analysis on the composition of expenditures and taxes in Turkey takes us to these conclusions. The contraction in the global economy after the global crisis and the resulting depreciation of the capital in value directed the state's focus on expenditures and tax policies that would help capital valorization. With the recently introduced policies of tax incentive and exemption, the tax burden on the capital in Turkey has lessened. The taxes imposed on wages and expenditures have increased, though. When the expenditures in this period are examined, it can be argued that some of the public expenditures are to ensure the legitimacy of the capitalist state and to contribute to the re-appreciation of the capital in value. In conclusion, the role of the capitalist state in Turkey, like all the other capitalist states, is to increase the accumulation and ensure its legitimacy. The cost resulting from this function of the state is socialized via taxes. In other words, those who mostly benefit from the public expenditures are the capital owners while most of the taxes are imposed on low and middle income groups.

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