

Dilemma of Developing Countries: Human Development Index vs Tax Burden*

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Abstract

In what ways can the gap in economic welfare be explained as we move from the USA to Mexico? How does Smith's economic theory transform today? It is not easy to foresee whether economic stability or social change will succeed to ensure human development by reaching a welfare society and playing a more efficient role in economic development in the long term. The relationships between growth, development, and distribution are among the social policy issues of both developed and developing countries. With the participation of 189 United Nations countries in 2000, the UN Heads of State and Government Summit (Millennium Summit) acknowledged the need to develop a global partnership for the development within the scope of 8 development goals to be achieved by 2015. The study aims to reveal that human development index needs to be taken into consideration as much as the tax burden and economics exists for "human". To this end, the repercussions of "welfare" perception in developing countries were analyzed in this study with comparative analysis method.

Keywords: Economic Development, Tax Policies, Tax Burden, Human Development Index

Jel Codes: H1, H11, H2, H21

Gelişmekte Olan Ülkelerin İkilemi: Vergi Yüküne Karşı İnsani Gelişme Endeksi

Özet

ABD'den sınırı geçip Meksika'ya ulaştığımızda ekonomik refahta karşılaştığımız uçurumu nasıl açıklayabiliriz? Smith'in iktisadi kuramından günümüze neler değişmiştir? Uzun dönemde ekonomik istikrarın mı yoksa toplumsal değişimin mi ekonomik kalkınmada daha etken bir rol oynadığı, refah toplumuna ulaşım insani gelişme sağlama noktasında hangi politika seçiminin başarı sağlayacağını kestirmek zor bir süreci barındırmaktadır. Büyüme, kalkınma ve bölüşüm ilişkileri gerek gelişmiş gerekse de gelişmekte olan ülkelerin sosyal politika meselelerindedir. 2000 yılında Birleşmiş Milletlerin 189 ülkesi, BM Devlet ve Hükümet Başkanları Zirvesi (Binyıl Zirvesi - Millennium Summit), 2015 yılına kadar başarılması gereken 8 kalkınma hedefi içinde, kalkınma için küresel bir ortaklığın geliştirilmesini gerekli görmüştür. Çalışmamızda vergi yükü kadar insani gelişme endeksinin de dikkate alınması gerektiği, iktisat biliminin "insan" için var olduğu gerçeği amaçlanmıştır. Bunun için de karşılaştırmalı analiz yöntemi ile "refah" algısının gelişmekte olan ülkelerdeki yansımaları değerlendirilmiştir.

Anahtar kelimeler: Ekonomik Kalkınma, Vergi Politikaları, Vergi Yükü, İnsani Gelişme Endeksi

Jel Kodu: H1, H11, H2, H21

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1. INTRODUCTION

In social sciences, all disciplines including economics, must ground their theories upon institutional change. In our day, economic development, as an indicator, is compared with the indicators of other countries rather than the change of domestic socio-economic indicators. In the literature of modern development, factors such as the geography of countries, openness, human capital and institutional quality have replaced the development indicators explained with factors such as labor force, capital accumulation, education in the last century. The neo-liberal approach's claim of foreseeing the numeral increase of national income for development is no longer valid for the developed countries.

While the reflection of the term modernization on the economy implies industrialization, urbanization, and technological renovation in agriculture, it also means that the social capital of countries and personal improvement of people increase but at the same time traditional links get weaker. From a political point, it means the rationalization of power and authority and the expansion of bureaucracy.

In our study, the importance of economic development for nation-states shall be emphasized; and as it is significant, it shall be attempted to explain how they have tried to make policies for the last century for this complicated problem they have had. In addition to this, the approach of economics towards the factor of human from its beginning till now shall be attempted to be discussed within the context of economic development, economics, and institutional economics.

The aim of our study is the idea that the success indicator of economic policies implemented by governments based on a "human" centered approach is that supra nationalist institutions would act as a locomotive to provide justice in income

distribution and a better liveable world by producing alternative policies for countries. Since the division of investable country or risky country, scores given to countries by credit rating agencies, country reports provided by organizations such as IMF and OECD, and economic indicators which are the result and indicator of international economic policies of governments can be a topic of a much wider research, our study shall be limited only with the indications of tax load and human development index and attempts to discuss the topic within the context of development. However, the main idea of the study is that the uncontrolled use of mathematics as an objective rather than an instrument in economics with the effect of Cartesian thought and methods of "mathematical economics" which are frequently used in intercountry comparisons prepared by the mentioned organizations through the use of statistical methods should be criticized, and the "human" factor behind these tables of indicators should not be ignored.

I- Economic Development Along with Modernization

In general terms, the concept "development" includes social, political and institutional mechanisms as significant factors to improve living standards of people today, along with the effective distribution of limited sources to provide a sustainable economic growth. The understanding of classic economics within the framework of rational choice and the efficient market assumption has been challenged by the difficulties experienced by modern individuals while deciding and predicting the consequences of their decisions due to the lack of information, high-cost information processing, the complexity of the environment and institutionalization-derived sunk costs. This behavior model gets even more radical in the 3rd world citizens when ideological and religious patterns in the perspectives of people withstand robust modern institutions of developed countries.

The idea that the world economy is in interdependence relationship and the scarcity of inputs of basic raw materials produced by various countries and especially the worry about the increase of oil prices have revealed the fact that the developed capitalist countries cannot ignore the underdeveloped countries. The priority for the recovery and restructuring of Western countries, which had been heavily damaged by World War II, was the liberalization of international trade and capital movements. With this idea, after Bretton-Woods Conference organized in 1944, organizations such as International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) or with its more common name the World Bank (WB), and United Nations (UN) were founded. The main point here is to make investments in underdeveloped countries through these establishments and consequently to obtain the basic inputs of western industrialization through imports and to ensure the industrialization / growth of the underdeveloped countries (Kaynak, 2005: 17).

However, by the 1970s, the world-wide events, especially the oil crisis, hurt development efforts; serious problems in development strategies based on import substitution industrialization and state intervention were experienced. The most important indicator of this is that poverty increasingly continued all around the world, and a significant rate of increase has occurred in foreign borrowing especially in Latin American countries.

By the 1980s, actors of the supply-side liberal economy such as R. Reagan and Margaret H. Thatcher opened a new door to development policies, and influenced the emergence of a new model of social organization with the effect of globalization. In an interview Margaret H. Thatcher gave to Sunday Times on 10th July, 1988 indicated a new period in economy policies by saying "I think we live in a period when people think that the

government should solve people's problems when they face hardship. "I have a problem; I should get some help. The government should give me a house." They attribute their problems to society. And do you know that there is not called society? There are individuals as men and women and families. And no government can do anything without individuals, people should first take care of themselves..." The main points in this statement are the denial of collective public structures in the understanding of social welfare state and the sign of welfare of people who live in communities with developed human capital, powerful technological infrastructure, and well-equipped individuals.

While the classical economy defines capital as physical elements and labor force, modern economy has radically changed this understanding. In addition to globalization and increasing competition conditions, developments such as information society, production of information, extraordinary speed and prevalence in reaching information (Tofler, 1996: 36), development rate of technology, and re-design of organizations in a human-centred way etc. have made the use of capital more common. With the increase of information's role in the production of information, it has been started to be used as capital and to be included in the production period (Nahapiet and Ghoshal, 2000: 124)

*"The introduction of science and technology-based on quantum paradigm moved humanity from the industrial society to the **Information Society**". Firstly gone through a crisis in this transition process, development and the growth theories were re-born by metamorphosis. In this metamorphosis process, a detachment from the previous approach was gradually experienced. The concept of economic development aimed at using and destroying nature in industrial society was exceeded by the concepts of sustainable growth, development and improvement, which has*

primarily considered nature as a scarce factor.

On the other hand, it brought up the terms “including of human into the analysis”, “humanitarian progress” and “humanistic development” which are the actors of economic development to the agenda. With the entrance of humanistic development, elements such as education, health, mortality rate in birth, per capita income, and income distribution have come to the forefront.

Also by internalizing the technical innovations that were previously taken as external data in the growth models where the analysis is made by the production function, new “internal growth models” were developed .(Erkan, Erkan, 2007:5)

While everything is being restructured at the level of new society and civilization driven by scientific and technological innovations; other areas of the social whole were restructured.

- ✓ In the Scientific-Technological field, it turned into quantum concepts and technologies based on the multiple network interaction of the subatomic world from mechanical concepts and technologies.
- ✓ In the economic field, it turned into an information economy which processes in network interaction from the atomic and mechanical capitalist market economy.
- ✓ In the political field, it turned into a participatory democracy from parliamentary democracy through non-governmental organizations in which group benefits are structured.
- ✓ In the social field, it turned into synergetic social structuring based on cooperation from independent-disassociated individuality.
- ✓ In the cultural field, from conservative and absolutist values, it turned into a cosmopolitan cultural diversity, in which differences can coexist with tolerance.

✓ In the global field, it led to structure transnational companies and institutions (global blocks) instead of national companies and relations.

Information Economy leads to change and diversification of industrial society's preference for profit maximization in static conditions. Structuring brought by new technologies, speed, productivity, quality, and the understanding of competition in the field of economy, change experienced in dynamic conditions, uncertainty, and the issue of trust gained importance (Erkan, Erkan, 2007:3).

In the next part of our study, it shall be attempted to explain how the theories of behavioral economics, which emerged with classical economics, have approached to the human factor, and how the new institutional economic theories that began to sprout in the second half of the last century together with behavioral economics could provide an economic policy for development in a global world and in particular in the expansion of tax policies. However, these two economic movements shall be evaluated within the context of development by scanning the literature and avoiding details.

In the following sections, the effectiveness of tax policies implemented in developing countries shall be attempted to be evaluated with tax load, income distribution, and human development index through a comparison between countries. In parallel with this, within the framework of the problem of development, it will be examined whether the interpretation of the content of the concept of human development with comparative indices is an important indicator or not.

1- Behavioural Economics

Founded before psychology, the discipline of economics was seen as a sub-branch of philosophy of ethics in the 18th century, and it has become widespread with the emergence of physiology in the 19th century. While physiology considered the human body as a machine, psychology reversed the situation

and considered the human mind as a machine. In the same period, the founder of psychoanalysis and the psychology, Sigmund Freud's (1856-1939) opinions called Freudism started to raise. Analyzing how the oppressed human mind causes unconscious behaviors, Freudism opposed to the mechanistic approach of physiology (Sent, 2004: 738). And it is stated that there is a harmony between the assumption of Freudian psychoanalysis about "the endlessness of human desire and that it can never be satisfied" and the assumptions of classical economics about "the endlessness of needs", "scarcity of sources", and that "humans are creatures that run away from torment and look for pleasure" (Akyıldız, 2006: 5).

Known as the founder of microeconomic theory, Alfred Marshall also carried out some psychological studies following Hume's statement that "all sciences shall turn back to the study of human nature". In his work "Principles of Economics", Marshall describes the science of economics as the science of wisdom in one aspect and as human science in another aspect. In Marshall's economy theory, "diminishing utility law" comes from the model in psychological studies in which human is considered as "simple type machine"; the idea of "life standard" comes from the model in which human is defined as "complex type machine"; and, "economic chivalry" comes from "the principles of sympathy" (Matsuyama, 2009:1). In addition to this, Marshall's human "machine" in psychology has same qualities as the economic agent in economy studies, and it divides human nature into two as being rational side and moral side (Matsuyama, 2009: 2).

Simon's (1955) study constitutes the basis of behavioural economics. Simon defines the satisfying behaviour as that "decision-makers, who do not want to undertake optimization or do not wish to bear the cost of calculation of optimization, choose the most satisfying alternative to replace them with the optimal

alternative". Behaving objectively rational requires the solution of highly complex problems. In the term "bounded rationality" suggested by Simon, it has been emphasized that the human mind is limited in the formulation and solution of complex problems. In fact, "theory of satisfaction" which was developed by Simon as opposed to the rationality theory is the application of "reality principle" and "pleasure principle", which was stated by Freud in his article "Formulations on the Two Principles of Mental Functioning" in 1911, in the field of economy (Önder, 2004: 56).

In the 1970s, studies of economics and happiness were brought into question again by Tibor Scitovsky and Richard A. Easterlin. Easterlin (1974) analysed the relationship between happiness and economy. According to the Easterlin paradox, economic growth increases happiness at a point which is beyond the meeting of people's basic needs; in other words, there is no connection between the level of economic development of the countries and the level of happiness of the people living in the country. Scitovsky, on the other hand, studied his early studies on the welfare economics, and in his work "The Joyless Economy: The Psychology of Human Satisfaction" written in 1976, he highlighted the topics of happiness, preference, and selection. In parallel with Easterlin's studies, Scitovsky listed four non-measurable criteria as possible reasons for the low correlation between individual happiness and the long-term rise in income for measuring an individual's quality of life: these are state, work satisfaction, innovation, and habit. Scitovsky stated that rising income would provide more satisfaction than high income. He also dealt with pleasure within the frame of addiction and habit, and stated that the tension between habit and innovation originates from the improvement paradox (Bianchi, 2003: 404).

2- New Institutional Economics

According to Adam Smith's approach, productivity in an economic system is dependent on specialization. Besides, specialization is possible if there is a change in the system and the cost of this change is very low. If we consider costs of change as transaction costs, a world with less transaction costs will enable more specialization and a higher rate of productivity. However, costs of change process in an economy are dependent on the legal structure of that country, cultural codes, educational status, and institutions such as these. Within this scope, we can state that economic performance of a country is determined by institutions (Çetin, 2012: 43-73).

Institutional change is highly important in the analysis of economic and political performance, and for this reason, a differentiation between institutions and organizations must be done in order to make a proper analysis of institutional change (North, 1990 and 1993). Institutions are rules of the game, and formal rules are informal norms and their characteristics in the application. Institutions decide the feature of the game played. Institutions guide how to decide in the economy by assigning specific rules to specific people and by leading the motives which should be used by all individuals for the increase of welfare (Wallis, 1989:102).

Organizations are player but they are not the individuals themselves. They are formed by groups which come together with a common aim. From this point of view, companies, trade associations, and cooperatives are economic organizations; political parties, legislative assemblies, and regulatory institutions are political organizations; universities, schools, and vocational training centers training centers are educational organizations. The primary aim of organizations (for example, for a company) can be to maximize the profit and (for example, for political parties) to be elected again, but the ultimate aim is to

survive; because, all organizations take place in a world where sources are limited and the competition is fierce for this reason (North, 2005:131). Historically, a successful economic growth occurs with the evolution of representative government and with the protection of property rights through legal laws (North, 1993:69). Indeed, the contracts in an organization according to individual contracts are to be established in such a way as to minimize the waste that may arise in the distribution of rent between the parties to the contract (North, 1986:235).

To achieve economic development, apart from some institutions leading in the approach of institutional economic thought (property rights, contract theory, superiority of law etc.), it is important to form some market supporting institutions in order to achieve a long term and stable development. When considered in a general frame, market supporting institutions can be listed as property rights, regulatory institutions, macroeconomic stability providing institutions, social security institutions, and conflict institutions.

The main reason for the successful economic performance observed in Western Europe compared to the rest of the world is that provided by institutional change, there is a reliable liability in property rights which limits arbitrary behaviors of the government. The starting point is the existence of organizations which appoint institutional regulations used to solve problems between personal relationships occurring in time. At this point, the role of the political institution as an organization (parliaments, leading parties) is very less or almost none. The main share belongs to the development of law; because improvement in commercial law enables a more comprehensive law system, and this law system enables the implementation of contracts in wider commercial areas and the undertaking of property rights. Such a change in legal structure has historically enabled the

exchange (or barter) to expand and spread both in time and in place.

3- Economic Development and Corporate Infrastructure

The foundations of social existence are the manifestations of the formal and informal institutions that people establish on the axis of production-shopping-consumption. In addition to the reflections of economic activity on the social and political structure, constructed ties of the activity with each social layer are considered as a variable. While the speed, efficiency, quality and competition in economic relations have come to the forefront with the structuring brought by the new technologies, in parallel with this, the significant shake experienced in social structures has brought the problem of uncertainty and confidence. Fukuyama considered trust as an important source of social capital and stated that it has privileged importance both for the construction of social order and as a support in economic development.

Social capital has a public characteristic. The capital of the social sphere also allows the establishment of social interaction and communication networks and it enables the foundation of a network based on reciprocity among people. One of the most remarkable analyses carried out about the effects of social capital on the performance of economy belongs to Ronald Burt. With the social network theory, considering the reflections of human interactions on the field of economy as a dimension of social capital, Burt highlights the importance of social capital in the activation of production process, in the effective use of labor market, in reducing costs, and in obtaining the maximum output from the market. The economic analysis of opportunities provided by the social structure and of social networks surrounding human beings further highlights the strong relationship between social capital and economy; because, the field of competition witnesses three types of capital depending on

this. While financial capital is based on money such as cash, bank account or credit, human capital is based on intelligence, talents, knowledge and experience, and social capital is based on the relationship with other actors (Aydemir, 2011:21).

The institutional framework in the 19th century Mexico is reported by John Coatsworth: interfering and mostly arbitrary nature of institutional framework required every initiative, both urban and rural, to resort to subsidized loan, to help various strategies for collecting labor force, to collect debt and to enforce contracts, to avoid taxes and court, to claim rights on land and to use kinship bonds, political and family status to advocate these rights in a much-politicized environment. The relationship between the manufacturer and political authorities used to depend on success or failure in economics.

Hirschman (1958) emphasizes the multidimensional aspect of economic development by resembling it to a puzzle. According to Hirschman, when places of other pieces are found in a puzzle, it is easy to find the place of a specific piece; yet, it is highly difficult to find places of other pieces in a puzzle in which only the place of one piece is known. From this point of view, it can be stated that sub-factors of economic development are closely related to each other; and, when there is an improvement in one of them, it will also contribute to the improvement of others.

In a study conducted by Hall and Jones (1999) making an attempt to find out why some countries are more productive than others, it was suggested that only a part of the difference of output per capita between countries can be explained with physical capital and education. On the other hand, the main issue was found as the social infrastructure, which refers to government policies and institutional differences. In this study conducted for 127 countries, a strong and close relationship was found between outputs per capita and social infrastructure.

4- Institutional Structuring Within the Perspective of Behavioural Economics

Becoming more and more popular especially after the Nobel Economy Prize was given to Richard Thaler in 2017, behavioral economics is an economic discipline that attempts to understand how employees, customers, citizens decide. Unlike the traditional thought, people can behave in a way which may contradict with their own benefits. Illogical or irrational behaviours in daily life affect most of the decisions in our lives.

In his study "Behavioural Economics and Institutional Innovation", Shiller (2006) stated that behavioural economics plays an important role in the historical foundation of innovation. He stated that behavioral economy has a very important place in the studies recently carried out on corporate innovation. In their article "Economics and Identity", two of the recent behavioral economists such as George Akerlof and Rachel Kranton analyzed the fact that the identity of an individual is shaped by psychological and sociological elements and this identity is determinant on economic behavior. In this study, economists who insisted that social and psychological factors play a leading role in determining the economic behaviors of an individual have complained about the fact that the identity element composed of the blend of all of these does not take place in economic models and analyses (Akerlof and Kranton, 2000:748).

When Alvaro, who is a resident of the Central American country of Guatemala, opened his mailbox, he saw a letter which was sent by the country's tax office and reminded him of making income tax payments. The notification stated that more than 65% of the citizens of the country had already declared their taxes. Alvaro soon applied to the authorized institution to pay his taxes. Not only he but also a significant part of the citizens also behaved in the same way. According to the acquired information, there was a 43% increase in tax payments in the country within

11 weeks after letters had been sent by the government (Dođru, 2018:23).

Since preferences are not always stable as accepted by neo-classical economics and it is sometimes ignored that it is inconsistent, it frequently causes tragic political formulations instead of supporting economy. One of the examples of it is the "tax reduction" policy implemented by the previous president of the USA, George W. Bush in order to boost American economy. In their studies, psychologists Epley, Idson, and Mak (2006) revealed that when tax premium is implemented instead of tax reduction, more citizens will spend and it will be more possible to boost the economy (Bazerman and Malhotra, 2006). The mentioned psychologists stated that the word "premium" creates an effect of "extra cash", and the word "reduction" has an image of "return money" compared to the current situation.

The detection of an economic system or structure's performance can be done with economic structure and political structures. Knowledge-based innovative development strategy is primarily the subject of the economic field. The establishment and institutionalization of such a strategy concerns the economy management and decision-making units of economy. However, this strategy should be carried out by creating a common desire in the society; and political power and state institutions should internalize and realize that this is a prior issue to implement. In the other hand, the innovative aspect of this strategy requires dense cooperation with the field of technology; because one part of the terms techno-park and R&D is based on the field of technology, and the other part is based on the field of economy. For this reason, the relationship between these two fields should be improved; encouragement provided by the political field and the guidance of policies should play an important role in providing close relationship between these fields.

It is necessary to resort to a political discipline for economic development. Political system must not only detect the share of the current and ever-changing structural regulations within GNP in the global world based on realistic predictions, but also define the ownership rights that determine the core structure of the economy. In developing countries that are aiming to ensure development with inadequate sources, distribution process indicates a socio-political attitude, which is tax policies.

II- Economic Development and Tax Structure

Tax policy is a significantly important tool for economic and fiscal policies to achieve their aims. In addition to this, shares and roles of indirect and direct taxes in the economy are different based on the degree of a country's level of development. Regardless of the share of these taxes, it is possible to contribute to economic growth and development using regulations and adjustments in either developed or developing countries (Table: 1).

The increase in the rate of indirect taxes, among total tax revenues, brings along an environment against high marginal consumption tendencies, while the exceptions and exemptions offered to entrepreneurs transform the income distribution in favor of this segment of society. (DPT, 2001: 74). Savings deficit in developing countries, where the marginal consumption trend is high, aggravates the financing of investments and leads tax burden to remain above the wage and labor-based large populations. As indirect taxes are fully undertaken by employees and workers in the final sense, the long-term reaction of the labor market to this preference will make the shift to consumption taxes ineffective. The reason for the ineffectiveness is related to the unchanged actual tax burden of the workers. In this regards, the distribution of national income, the degree of tax avoidance and the informal economy, and the characteristics of capital taxation play an important role. It is reported that the labor

supply depends not only on the tax burden on wage income of the employees, but on the total tax burden. In this sense, shifting the tax deductions to consumption through income will have no positive impact to reduce unemployment. Reducing taxes on income, and compensating this via increases in VAT reduces the tax burden on high incomes and increases the tax burden on lower and middle income. This, in return, adversely affects the desire of low-income and unqualified labor force to be employed. Reducing direct taxes and increasing indirect taxes, in turn, will preserve savings that are subject to taxes at low level. This will create a contradictory situation that reduces GNP by restricting consumption, which will be reflected in the effective demand. Besides, the focus on consumption will lead higher income earners with low consumption tendencies to avoid taxes. Their accumulated wealth will never be consumed and will be inherited to be passed on to future generations (Özdemir, 2009:18).

Table.1- Indirect – Direct Tax Relationship of Economic Growth and Development

Indirect Taxes	Direct Taxes
Protection of domestic industry; 1- Customs duties	Tax reductions; 1-Employment increase 2- Increase in national income
Limitation of consumption; 1- Increasing indirect taxes 2- Reducing luxury consumption	3- Productivity and production growth 4- Increase in investments 5- Increase in savings 6- Increase in supply-prevention of inflation
Encouraging savings; 1-Limitation of consumption 2-Transferring expenses to investments	Tax system and management; 1- Effective tax collection 2- Increase in tax income 3- Effective tax policy
Foreign exchange savings; 1- High import taxes	Encouragement about taxes, 1- Increase of production 2- Increase in investments and savings 3- Reducing regional inequalities

Source: E.S.Demircan, "Vergilendirme nin Ekonomik Büyüme ye ve Kalkınmaya Etkisi" Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, Issue: 21, July-December 2003, p.113

Any country's development of the tax system is based on the stability of political system, rather than the economic structure. In addition, taxes are effective to determine the

savings level and source distribution in developing countries where tax structure is an important indicator of economic development level. The ratio of direct taxes to total tax revenues is high at the beginning of development process. This ratio falls in late labor society level and rises again upon ensuring human development level. Chelliah (1989) reported that the share of indirect taxes in total tax revenues decreased with economic development while the rate of direct taxes increased. Tosun and Abizadeh (2005) analyzed how tax structure was affected by income per capita, which can be used as economic development variables for the 1980-1999 period in OECD countries. Accordingly, the impact level of development on tax structure was detected; it was found that the share of direct taxes in total tax revenues increased in parallel to the income per capita while the share of indirect taxes decreased. Cural and Çevik (2015) analyzed the effect of development on tax structure via long-term regression analyses and structural breaking tests between 1924-2013 periods, and found that direct taxes increased in the long-term development process.

III- The Relationship Between Economic Development and Tax Load

It can be seen that tax capacity is narrow, global tax load is low, and tax effort is inadequate in developing countries. As a result of this situation, governments cannot collect enough taxes for the financing of economic development and growth; since they do not have enough financing, they cannot make necessary capital investments for development. In developing countries, the lack of resources and employment increases in parallel to this shortage, which is the major challenge before economic development. Such countries cannot focus on direct taxes with the purpose of improving employment and reducing the substitution effect of taxes. Furthermore, tax burden remains under the responsibility of the ultimate customer due to the fact that tax competition, which is

increased by globalization effect, causes less increase in direct taxes than the expectations. What's more, attempts to reduce the tax burden on financial capital with the effect of globalization require global-level tax competition to reduce the rates of corporate income taxes. For this reason, this leads to an increase in tax revenues to avoid the failure of public services in developing countries, which are making an effort to be higher in human development ranking. For each and every citizen, the cost of an equal tax rate is the degradation in income distribution. Nevertheless, the marginal tax rate leads to the loss of efficiency since it is effective on labor supply decisions. These two parameters can be adjusted by governments, which aim to increase tax revenues and redistribute income. The optimal preference between these parameters depends on a few factors, such as to what extent the government wishes to increase tax revenues, society's preferences regarding the redistribution, and hence social welfare function, how the labor force supply will be shaped as a result of individuals' reaction to the after-tax income, and the unfairness of the pre-tax income distribution.

Because of the destructive effects of taxation on markets, there are some negative reflections observed in economic activities (Diamond et al. 1971a,1971b). Since the relative prices of goods / services change, optimal balance is not provided and the thought that there is not a balance in tax load becomes more common. A tax policy which will be formed within the scope of the approach of optimal taxation should be implemented through income distribution policy by considering equality aspects as well as effectiveness aspect.

IV- Tax Load-Income Distribution Policy

It is among the most important duties of states that they do not distress their existence and take a reasonable level of taxation. The relevant reasonable level is the social and psychological border of the tax capacity (Demir, İ.C., 2013:44).

The development and balanced distribution of welfare level requires the change of economic and social structure to enable a region, as well as a certain class or a group of society, to take its share from the welfare. In a study conducted upon five countries, Kuznets reports a correlation between income distribution and economic growth. As the income level increases, inequality initially increases, and then decreases. He explains this parallel with the employment flow from agriculture to non-agricultural sectors. As is widely known, the productivity in the non-agricultural sectors is higher than the agricultural. At the first phase, production increases and income distribution deteriorates. Further phases of the production increase, on the other hand, bring along the improvement or recovery of the income distribution. Another study reports that, in the first phases of economic development, the wage gap between qualified and unqualified labor force gets bigger, and therefore income distribution deteriorates. However, the social segment at a higher level in terms of human capital transfers these savings to the low-wage segments, and finally, human capital and wage differences decrease, and income distribution becomes more just and fair.

Let us consider human as a homo-economicus creature or as individuals with moral and cultural values, in either situation, it is obvious that s/he would have a psychological attitude against taxes. As being one of the most important factors determining the tax capacity, social and psychological border ranges depending on many factors varying from socio-cultural structures of societies to per capita income. As production factors, labor, capital, and land generally depend on human. In the same way, affected by various internal and external factors, the tax capacity is at higher levels in developed societies (Haydanlı, 2015:26).

A tax policy which will be formed within the scope of the approach of optimal taxation is expected to be implemented through income

distribution policy by considering equality aspects as well as effectiveness aspect. In order to evaluate taxation results related to both activity and equality, it is necessary to analyse responses of individuals against taxes. In order to make accurate analyses, it is vital to consider different optimization preferences which can be caused by behavioural tendencies originated from limited rationality. As can be seen in Table 2, it is important for developing countries to consider the behavioral approach in which the socio-psychological factors are included in the assessment of tax load and income distribution. As the level of tax culture increases, tax compliance and the willingness to pay increase, and as the tax culture level decreases, tax compliance and income level decrease.

Table.2- Tax Compliance Approaches

Economic Approach	Behavioural Approach
<ul style="list-style-type: none">• It focuses on the term 'tax gap'.• It has a narrow scope.• There is economic rationality prediction.• The expected benefit of tax evasion, risk of auditing and punishment, maximization of personal income and fortune are prominent factors.• It places emphasis on activity in its allocation.• Taxpayer is selfish.	<ul style="list-style-type: none">• It focuses on voluntary conformity.• It has a wide scope.• It adapts behavioural cooperation.• Individuals are not independent pragmatists. They have beliefs and values. The role of cooperation is important.• Equality and fairness are main values.• It has 'good citizen' approach.

Source: Seçilmiş, E., Didinmez, İ., "Vergi Reformlarının Davranışsal İktisat Perspektifinden Değerlendirilmesi: Türkiye Örneği", *Türk Dünyası Sosyal Bilimler Dergisi*, Spring, 2016, P.77, p.213

V- Policy Dilemma: Tax Load vs. Human Development Index

Socioeconomic factors such as national income, education, health, personal freedom, entrepreneurship, security, social capital, unemployment, which are among the most significant factors of social structure, must be analyzed well during the evaluation of the performance of countries which aim to

develop. Amartya Sen considers capitalism as data contrary to Marx. In this theory, he draws a framework based on human capacity and freedom as an alternative to the traditional economic understanding of inequality and human development in general. In the capacity approach, having a certain level of goods is less important than the achievement of all or a particular part of compulsory human functions. Aristotle puts forth that what makes a good life is the use of human capacities and human power, however, the development of these elements occurs historically rather than being determined by a fixed biological phenomenon. Sen also highlights that life is *something* more than reaching a benefit. He considers the need for happiness or meeting as just a component of human existence.

Table.3- 2014 Tax Load Rates of 5 OECD Countries with the Highest Human Development Index and Comparison of 2014 Personal Welfare Perception Satisfaction Rates with Turkey's Rates

Rank No	Country	Tax Load*	HDI Value**1	Personal Welfare Perception Satisfaction Rates
1	Norway	38,7	0,944	7,7
2	Australia	27,8	0,933	7,2
3	Switzerland	27,0	0,917	7,8
4	Holland	37,5	0,915	7,5
5	USA	25,9	0,914	7,0
6	Turkey	28,8	0,759	5,3

Source: Prepared by us through compilation. (Social security premiums are included in tax load rates.)

*Source: OECD, Revenue Statistics 1965-2015.

**UNDP 2014, Human Development Report, pp. 160-163.

In Table 3, tax load rates of some developed countries and Turkey, as a developing country, and human development index values, and welfare perception of people who are living in these countries are given. As can be understood from the table, tax load and human development index show parallel rates in developed countries; human development index is high depending on the level of tax load rate; personal welfare perceptions are approximately close to each other although there are some slight differences depending on the socio-cultural structures. At the same time, it can be observed that depending on tax load and human development index, welfare perceptions of individuals who live in developed countries are significantly higher compared to Turkey.

In developing countries, development should be carried out without ignoring human factor in tax policies by making no concessions from financial discipline through a well-organized tax management which stands stable against internal and external money and credit shocks, and tax losses and evasions.

2. CONCLUSION

The fact that the problem of poverty presents a global view and is an indispensable argument for world peace requires a global perspective and a total struggle for the problem of development. It is now better understood that nowadays people are not individuals who do a continuous cost-benefit analysis. Individuals are more in the foreground with their perceptions and emotions in their numerous financial and economic decisions such as savings and investment decisions and tax compliance.

While studying the perception and attitudes of agents in the taxation economics discipline examining policy reflections, the economic psychology of tax behavior stands out as a

¹UNDP 2014, Human Development Report p. 156. According to 2014 Human Development Report, countries with IGE scores; under 0,550 are in Low Human Development, between 0,550-0,699 are in

Medium Human Development, between 0,700-0,799 are in High Human Development, over 0,800 are in Very High Human Development categories.

dimension that needs to be focused in particular. Because in a field such as taxation where human plays a determinant role, a rational individual assumption which makes absolute mechanical evaluations is not adequate. For this reason, it is important to use behavioural economics methods in order to analyse cognitive deviations. Thus, it would be possible to examine the socio-economic origins of the taxpayer behaviour and to determine successful taxation strategies. Economics offers up-and-coming developments in the relevant scope.

While institutionalization has an important place in today's complex economic relations, small and medium sized enterprises should be supported by encouragements and they should be prevented from disappearing inside the wheels of the system. In addition to this, as

stated by Weber, necessary precautions should be taken to guide institutions under the light of the formal structure and rational principles; it should not be ignored that relationships between individuals could decrease in institutions and the alienation factor might occur.

Nation-states should base on a "human" centered approach in development policies which they can independently implement in this globalization and information age; through tax reformations to be planned in this manner, they can prevent the tax load to be burdened on wage labors and consumers who face indirect taxes more. In this way, they can become liveable countries with equal income distribution and human development index.

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