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# FISCAL FREEDOM: AN ASSESSMENT FOR THE EUROPEAN REGION*

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## ABSTRACT

Fiscal policy instruments have an crucial role in achieving social and economic goals in international competition especially during financial crisis period. Fiscal freedom which can also be stated as the measurement of tax burden imposed by the government is also important in terms of its effects on economic indicators such as growth, foreign direct investments, property rights, corruption, private and public sector efficiency. In this study, European Region fiscal freedom scores were evaluated for European Union Member and Non-Member States. Although Fiscal Freedom level on European Region remains below the world average, significant reduction has been observed. European Union member countries are more free economically but not free fiscally.

**Keywords :** Fiscal Policy, Europe, Economic Effects of Globalization, International Fiscal Issues, Fiscal Policy and Behaviour of Economic Agents

# MALİ ÖZGÜRLÜK: AVRUPA BÖLGESİ İÇİN BİR DEĞERLENDİRME

## ÖZ

Maliye politikası araçları uluslararası rekabet ve finansal kriz ortamında iktisadi ve sosyal hedeflerin gerçekleştirilmesinde önemli bir role sahiptir. Devletin dayattığı vergi yükünün ölçülmesi olarak da ifade edilebilecek mali özgürlük, büyüme, doğrudan yabancı yatırımlar, mülkiyet hakları, yolsuzluk, özel ve kamu sektörü verimliliği gibi ekonomik göstergeler üzerindeki etkileri açısından da önemlidir Bu çalışmada, Avrupa Bölgesi mali özgürlük puanları Avrupa Birliği Üyesi ve Üye Olmayan Devletler için değerlendirilmiştir. Avrupa Bölgesi'ndeki Mali Özgürlük seviyesi dünya ortalamasının altında kalmasına rağmen, önemli bir azalma gözlenmiştir. Avrupa Birliği üyesi ülkeler ekonomik olarak daha özgürdür, ancak mali olarak özgür değildir.

**Anahtar Kelimeler**: Maliye Politikası, Avrupa, Küreselleşmenin İktisadi Etkileri, Uluslararası Mali Konular, Maliye Politikası ve İktisadi Ajanların Davranışları

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## Introduction

Monetary and fiscal policies that the countries condact to meet their economic goals are undergoing a change in the transforming world economy. The countries perform a series of implementations for providing the financial liberalisation in order to acquire the macroeconomic targets in the increasing international competition. On the other hand, international markets might cause negative effects in addition to the positive ones by keeping the economies of the countries in interaction with each other. Under the conditions of crisis environment, it was tried to reinvigorate the economies of the countries by providing fiscal freedom intensively. Especially, fiscal policy tools are mainly applied. Consequently, the fact of fiscal freedom has become a highly concerning issue depending on the economic conditions which are experienced in the recent years.

Fiscal freedom assessment in which tax burden imposed by the government is very significant in transnational comparisons. In this way, the countries can be in an endeavour to consider their fiscal freedom scores about their tax policy regulations.

The main aim of this study is to investigate the fiscal freedom scores of the countries in the European Region, under two classifications as the European Union Member countries and European Union non-member countries.

For this purpose, the study consists of five sections. In the first part, fiscal freedom will be explained in a detailed way and give an outline of some information about its relationship with many economic indicators such as public-private sector efficiency, growth, foreign direct investments, property rights, corruption and transparency will be provided. The formulation of fiscal freedom index of the European countries will take place in the second section. In the third section, the evaluation of fiscal freedom of the European countries will be mentioned. Fiscal freedom indicators in Turkey's economy will be interpreted in the fourth section. In the conclusion part, a general evaluation of the study will be given.

## The Concept of Fiscal Freedom

In the Fiscal Freedom Index which is published annually by Heritage Foundation and Wall Street Journal regularly, the index was expressed as the concept of Fiscal Freedom until 2017 but it was defined under the title of tax burden in the 2017 index[2].

Fiscal freedom is a direct measure of the extent to which government permits individuals and businesses to keep and manage their income and wealth for their own benefit and use. Taxation and borrowing causes fiscal burden on economic activity. The higher the government's share of income or wealth, the lower the individual's reward for economic activity and the lower the incentive to undertake work at all. Private sector activity is reduced by higher tax rates which also reduces ability of individuals and

[2] Tax burden index of IEF,2017 , will be evaluated as fiscal freedom index in our study.

firms to pursue their goals in the market place. Individual and corporate income tax rates are important and direct constraints on an individual's economic freedom and are reflected as such in the Index, but they are not a comprehensive measure of the tax burden. Payroll, sales, and expenditure taxes as well as tariffs and the value added tax (VAT) are the kinds of indirect taxes that are imposed by governments. In the Index of Economic Freedom, the burden of these taxes is captured by measuring the overall tax burden from all forms of taxation as a percentage of total gross domestic product (Index of Economic Freedom, 2017,p.21-22)

Although there are indicators about taxing in the Index of Fiscal Freedom, it cannot be sufficient alone. For more detailed studies, indicators such as public expenditure, budget deficits and public debt stocks can be included in the calculation of the Index of Fiscal Freedom in addition to public revenues. Fiscal freedom is important because of many reasons. Measurement of the fiscal freedom is also in interaction with many economic indicators such as public-private sector efficiency, growth, foreign direct investments, property rights, corruption and transparency through taxing.

When fiscal freedom is mentioned, private sector operates more actively than public sector. The more private sector is included in economic activity, the less public sector that is inactive will take a part in economic activity relatively. When all the other conditions are the same, the countries which have higher fiscal freedom levels are more active and they have higher growth rates depending on this superiority. The countries with higher economic freedom levels operate more actively (McGee, 2008:93). At the same time, there is also a problem about property rights. Taxing means obligatory acquisitions of property. Voluntariness is out of question. In fact, some groups of selected volunteers determine the amount and the extent of tax policy about which groups or individuals are in the scope of it (McGee, 2008:93). Freedom that is brought on property rights through taxing affects foreign direct investments, economic growth and economic freedom level indirectly (Scharf and Perroni, 2007, Scheineder, 2005, Park and Ginarte, 1997).

The marginal tax rate that an individual takes on actually means the profit which the government subtracts from the next unit activity. The residual amount after taxing expresses the real acquisition of the individual in consequence of his/her working. The more the government cuts back, the less the individual's usable income decreases, so the individual's motivation to work will go down. High tax rates make the individuals' and companies working and investing desires decrease by affecting their existence in the market. The government may cause a fiscal burden on economic activities through taxing; however, the taxes can be used on debt financing when it is assumed that public services are operated by loaning. Though the rates of income and corporate taxes are important for economic freedom, they are not an extensive criterion for tax burden. The government imposes many indirect taxes such as salary, sales, consumption, VAT and tariffs. In the Index of Economic Freedom, the burden that is induced by all these taxes are expressed as the ratio of tax incomes to GDP (Index of Economic Freedom, 2017:22).

In the tax theory, it is believed that progressive taxes are much more effective fiscal policy tools than flat-rate taxes in order to reach fair disturbution and wealth. However, the view that considers flat-rate taxes more effective in securing the justice has been started to uphold since 1980s together with quitting the functional fiscal theory. Flat-rate taxes have been subjected to critics as being distant from making the taxpayers subjective although they provide application convenience for taxpayers and tax administration and they struggle with the effects of tax competition. In order to create an appropriate tax system, rearranging the income taxes and starting flat-rate tax applications are recommended (Orkunoğlu,2008:3, Edizdoğan and Çetinkaya, 2010:119-121). Hereby an improvement can be observed at the fiscal freedom scores of the countries which provide minimum subsistence allowance in their tax applications, in which the effects of the inflation on tax brackets are reduced and in which tax length and height differences are arranged.

By globalization, a keen competition has started to be a matter between the countries so as to bring foreign direct investments in their countries' economies. Taxes are the leading policy tools that are used in the competition environment. The interaction between fiscal freedom level and attracting the capital investment becomes more of an issue. The countries which are against foreign and domestic investors will have difficulty in drawing capitals. The countries which have high public expenditures and tax rates have less attractive positions to invest (McGee, 2008:94, Hines, 1996, 1997, Auerbach and Hasset, 1993). The studies of Slemrod (1989), Cummins and Hubbard (1995), Mooij and Ederveen (2003), Swenson (2001), Benassy-Quere, Fontagne and Lahreche-Revil (2001), Altshuler, Grubert and Newlon (2001) are some of the empirical studies which investigated the relationship between foreign direct investment and taxation.

This issue is especially important for transition economies and the economies of developing countries as they need capitals for their economic growth. The developing countries need capitals to reach the targeted growth rate. Taxes, capital, labour supply and investment demand affect the growth rates by influencing productivity growth (McGee, 2008:94, Engen and Skinner, 1996, Johansson et al. ,2008, Kneller et al. 1999, Myles, 2000, Arnold, 2008).

There is also an indirect relationship between fiscal freedom level and corruption. As mentioned in the previous paragraph, there is a strong interaction among taxation, foreign direct investment and growth. Corruption might be more distorting effect on most economies than taxing. The economies which have political, fiscal and economic freedom environments have more chances to create a cleaner society (Shang- Jin,2000, Iman and Jakobs ,2007, Fisman and Svensson, 2000, Shleifer and Vishny,1993, Goel and Nelson,2005, Easson and Thuronyi,1998).

The number of components of economic freedom that are separately evaluated and graded in terms of 12 components. These components are; Property Rights, Judicial Effectiveness, Government Integrity, Tax Burden, Government Spending, Fiscal Health, Business Freedom, Labor Freedom, Monetary Freedom, Trade Freedom, Investment Freedom, Financial Freedom. In terms of our study fiscal freedom will be evaluated for European Region Countries.

**Calculation of The Index of Fiscal Freedom**[3]

The fiscal freedom component is a composite measure of the burden of taxes that reflects both marginal tax rates and the overall level of taxation, including direct and indirect taxes imposed by all levels of government, as a percentage of gross domestic product (GDP). The component score is derived from three quantitative sub-factors:

- The top marginal tax rate on individual income,
- The top marginal tax rate on corporate income,
- The total tax burden as a percentage of GDP.

Each of these numerical variables is weighted equally as one-third of the component score. This equal weighting allows a country to achieve a score as high as 67 based on two of the factors even if it receives a score of 0 on the third.

Fiscal freedom scores are calculated with a quadratic cost function to reflect the diminishing revenue returns from very high rates of taxation. The data for each sub-factor are converted to a 100- point scale using the following equation:

$$\text{Fiscal Freedom}_{ij} = 100 - 200\,(\text{Component}_{ij})^2$$

where Fiscal Freedom $_{ij}$ represents the fiscal freedom in country i for factor j; $\text{Factor}_{ij}$ represents the value (a percentage expressed on a scale of 0 to 100) in country i for factor j; and α is a coefficient set equal to 0.03. The minimum score for each sub-factor is zero, which is not represented in the printed equation but was utilized because it means that no single high tax burden will make the other two sub-factors irrelevant[4].

[3] The formulation in the creation of the Index of Fiscal Freedom was explained based on Index of Economic Freedom 201.

[4] The *Index* relies on the following sources for information on tax rate data, in order of priority: Deloitte, *International Tax and Business Guide Highlights*; International Monetary Fund, *Staff Country Report*, "Selected Issues and Statistical Appendix," and *Staff Country Report*, "Article IV Consultation"; Pricewaterhouse Coopers, *Worldwide Tax Summaries*; countries' investment agencies; other government authorities (embassy confirmations and/or the country's treasury or tax authority); and Economist Intelligence Unit, *Country Commerce* and *Country Finance*.

For information on tax burden as a percentage of GDP, the primary sources are Organisation for Economic Co-operation and Development data; Eurostat, Government Finance Statistics data; African Development Bank and Organisation for Economic Co-operation and Development, *African Economic Outlook*; International Monetary Fund, *Staff Country Report*, "Selected Issues," and *Staff Country Report*, "Article IV

The data which had been transformed into "100" scale score was grouped in five different ways and fiscal freedom measurement was graded. The countries which have scores between 80-100 are referred as free, the countries which have scores between 70-79,9 are referred as mostly free, the countries which have scores between 60-69,9 are referred as moderately free, the countries which have scores between 50-59,9 are referred as mostly unfree and the countries which have scores between 0-49,9 are referred as repressed countries.

**The Assessment of European Countries Fiscal Freedom**

No matter what their existing level of development may be, countries can get an immediate boost in their economic growth by implementing steps to increase economic freedom through policies that reduce taxes, rationalize the regulatory environment, open the economy to greater competition, and fight corruption. The European region consists of 44 countries and it is observed that the region is in economic stability and abundance entirely. The existence of intense and fundamental open market institutions in most of the countries resulted in actualization of 10 economic freedom indicators out of 12 above the world average.

In figure 1, European Region's fiscal freedom in 2017 were compared with the scores of the other continents. The European Region takes place on the top with the economic freedom score of 68,8 by 2017. On the other side, the European region has the lowest world average with its 71.8 fiscal freedom score. Sub-Sahara and African countries are the ones which repressed most by the index of economic freedom. According to average index of fiscal freedom, the most free countries are the Middle East and North African countries.

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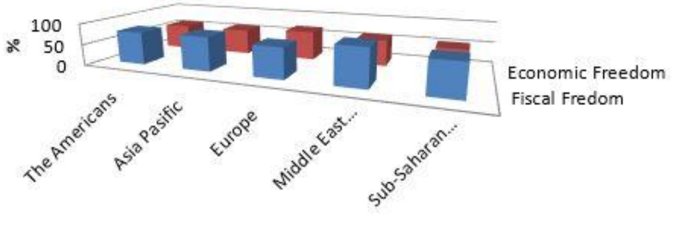
Consultation"; Asian Development Bank, *Key Indicators for Asia and the Pacific*; United Nations Economic Commission for Latin America, *Economic Survey of Latin America and the Caribbean*; and individual contacts from government agencies and multinational organizations such as the IMF and the World Bank.

**Figure 1.** ***Comparative World Averages of Economic and Fiscal Freedom Indicators***




| | The Americans | Asia Pasific | Europe | Middle East /North Africa | Sub-Saharan Africa |
|---|---|---|---|---|---|
| Fiscal Fredom | 77,3 | 80,3 | 71,8 | 87,8 | 75,6 |
| Economic Freedom | 60 | 60,3 | 68,8 | 61,9 | 55 |

Resource. It was prepared by the researchers of this study based on the data of IEF, 2017.
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In Table 1, the indicators about tax incomes of the countries in the European Region are presented. The region will be tried to be analysed under two titles as European Union member countries (28 countries) and European Union nom-member countries (16 countries).

Among the European Union member countries, Sweden imposes the highest income tax rate with 57 % and Bulgaria imposes the lowest income tax rate with 10 %. On the other hand, with in European Union non-member countries, Norway imposes the highest income tax rate with 47,5 % and Montenegro imposes the lowest income tax rate with 9 %. Malta imposes the highest corporation income tax rate with 35 % and Bulgaria and Cyprus impose the lowest corporate income tax rate with 9 % among the European Union member countries. Norway imposes the highest corporate tax rate with 25 % and Switzerland imposes the lowest corporate tax rate with 8,5 % among the European Union non-member countries. Among the European Union member countries, Denmark has the highest tax incomes/GDP ratio with 50,9 % and Bulgaria has the lowest tax incomes/GDP ratio with 26,5 %. On the other hand, within the European Union non-member countries, Norway and Montenegro have the highest tax incomes/GDP ratio with 39,1 % and Kosovo has the lowest tax incomes/GDP ratio with 21,1 %.

Estonia, Lithuania, Romania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia are the countries which impose both the same income and corporate tax rate. These countries are called as the countries with transition economies. In transition economies, an effort to generate a modern tax system in addition to price liberalisation and reducing the role for public sector on economic activities is importance. Extensive and proportionally low tax rates are recommended for transition economies (Gökpınar and Utkuseven, 2007:64- 69, Altay, 2003:6). Share of direct and indirect taxes in tax incomes and the tax structure differ. At the same time, the share of the tax is low in the economies of underdeveloped countries and the increase of tax incomes have positive effect on economic development (Ay and Talaşlı, 2008:135). The average of income tax is 36,56 and of corporate income tax is 21,14 among 28 European Union member countries. While average income tax is 36,56 and corporate income tax is 21,14 among 28 European Union member countries, for European Union member countries average income tax is 19,56 and corporation income tax is 15,34. In transition economies average income and corporate income are behind these rates.

Due to the cost of being a welfare state which is the general economic freedom indicator of the Europe, the scores of fiscal freedom, public expenditures and labour freedom have significantly important. Substantial labour regulations cause unemployment and economic growth to slow down by hindering both productivity growth and the formation of a more dynamic occupation structure. In such cases reducing the expenditures is preferred so as to decrease the fiscal deficits in many European countries.

In Table 2, scores about fiscal and economic freedom of the countries in the European Region are presented above. About 80 % of 44 European countries obtained economic freedom score between 60 and 80 and they reached the status of medium-level free and mostly free countries. Ukraine is the supressed with its below 50.44 while other countries have 71,26 average score of fiscal freedom and 67,98 average score of economic freedom. Switzerland is ranked as first with its economic freedom. Switzerland is ranked as first with its economic freedom score of 81,5.

Rules-based fiscal policies lie behind the pressure on the fiscal freedom scores of the EU member countries. The definitions of fiscal rules are separated into two main titles as broad and narrow sense in the related literature. Fiscal rules deal with budget applications in the broad meaning and expenditures and income policies in narrow sense. Numerical restrictions about fiscal performance such as budget deficit indebtment, public expenditures and tax incomes are considered as fiscal rules restrictions in the narrow sense. On the other hand, behavioral and legal process spent so as to actualize these restrictions are a part of the fiscal rule definitions (Hallerberg et al.2004:14, Kopits and Symansky,1998:2, Drazen 2002:1). Providing macro-economic stability, fiscal sustainability, increasing the efficiency of fiscal policies, reducing the problems resulting from budgeting process, supporting the other financial policies, preventing the formation of negative exogeneities and political populism are the most essential ones among the reasons to need fiscal rules (Dede, 2010:13, Kennedy and Robins, 2001:3, Kesik and Baydar,2010:47).

**Table 1**. *Tax Indicators for European Countries (2017)*[1]

| EU Member Countries | | | | EU Non Member Countries | | | |
|---|---|---|---|---|---|---|---|
| Countries | Income Tax Rate (%) | Corporate Tax Rate (%) | Tax Burden % of GDP | Countries | Income Tax Rate (%) | Corporate Tax Rate (%) | Tax Burden % of GDP |
| Austria | 50 | 25 | 43 | Albania | 23 | 15 | 23,6 |
| Belgium | 50 | 34 | 44,7 | Armenia | 26 | 20 | 23,5 |
| Bulgaria | 10 | 10 | 26,5 | Belarus | 13 | 18 | 23 |
| Croatia | 40 | 20 | 36,4 | Bosnia | 10 | 10 | 38,1 |
| Cyprus | 35 | 12.5 | 36,3 | Georgia | 20 | 15 | 25,3 |
| Czech Republic | 15 | 19 | 33,5 | Iceland | 31,8 | 20 | 38,7 |
| Denmark | 56 | 23,5 | 50,9 | Kosovo | 10 | 10 | 21,1 |
| Estonia | 20 | 20 | 32,9 | Macedonia | 10 | 10 | 24,6 |
| Finland | 31,8 | 20 | 43,9 | Moldova | 18 | 12 | 30,4 |
| France | 45 | 34,3 | 45,2 | Montenegro | 9 | 9 | 39,1 |
| Germany | 45 | 15,8 | 36,1 | Norway | 47,8 | 25 | 39,1 |
| Greece | 42 | 29 | 35,9 | Russia | 13 | 20 | 35,3 |
| Hungary | 15 | 19 | 38,5 | Serbia | 15 | 15 | 35,0 |
| Ireland | 41 | 12,5 | 29,9 | Switzerland | 11,5 | 8,5 | 27,1 |
| Italy | 43 | 27,5 | 43,6 | Turkey | 35 | 20 | 28,7 |
| Latvia | 23 | 15 | 27,8 | Ukraine | 20 | 18 | 37,6 |
| Lithuania | 15 | 15 | 29,3 | | | | |
| Luxemburg | 42 | 19 | 37,8 | | | | |
| Malta | 35 | 35 | 35,6 | | | | |
| Netherlands | 52 | 25 | 36,7 | | | | |
| Poland | 32 | 19 | 31,9 | | | | |
| Portugal | 48 | 21 | 34,4 | | | | |
| Romania | 16 | 16 | 27,4 | | | | |
| Slovakia | 25 | 21 | 31 | | | | |
| Slovenia | 50 | 17 | 36,6 | | | | |
| Spain | 45 | 25 | 33,2 | | | | |
| Sweden | 57 | 22 | 42,7 | | | | |
| England | 45 | 20 | 32,6 | | | | |

Resource: It was constructed by the author, based on the data of Eurostat, 2017[2] and IEF,2017.

Following the transition of European Union member countries into monetary union, monetary policies have started to be managed by European Central Bank.

However, there is no a similar application for fiscal policies. The existence of multiple fiscal policies may cause difficulties in providing integrity and achieving common goals. The applications of fiscal policies depending on rules in European Union member countries are based on the protocol of Maastricht Agreement and Excessive Deficit Procedure in European Union. On the other hand, Maastricht Agreement and the protocol about Excessive Deficit Procedure in the appendix of this agreement. Stability

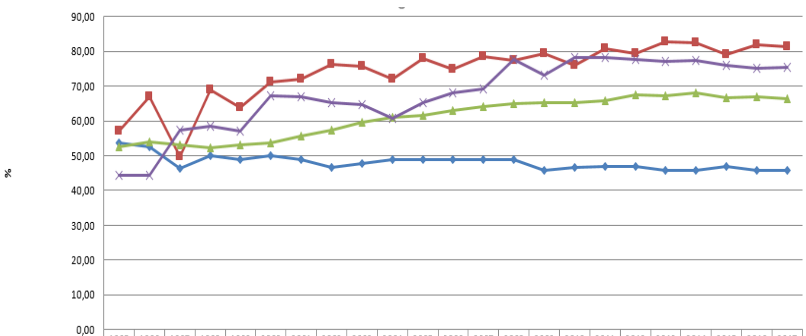
**Table 2**. *Economic and Fiscal Freedom scores of European Region Countries (2011)*

| European Union member countries ( 27) | | | | | European Union non-member countries | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Country | Ranking of Economic Freedom | Ranking of Fiscal Freedom | Score of Economic Freedom | Score of Fiscal Freedom | Country | Ranking of Economic | Ranking of Fiscal Freedom | Score of Economic Freedom | Score of Fiscal Freedom |
| Austria | 17 | 40 | 72,3 | 50,3 | Albania | 30 | 8 | 64,4 | 86,9 |
| Belgium | 25 | 43 | 67,8 | 44,1 | Armenia | 19 | 10 | 70,3 | 83,7 |
| Bulgaria | 23 | 3 | 67,9 | 91 | Belarus | 40 | 4 | 58,6 | 89,8 |
| Croatia | 37 | 26 | 59,4 | 66,8 | Bosnia | 36 | 11 | 60,2 | 83,5 |
| Cyprus | 24 | 22 | 67,9 | 73 | Georgia | 5 | 6 | 76 | 87,3 |
| Czech Republic | 16 | 14 | 73,3 | 82,9 | Iceland | 12 | 25 | 74,4 | 70,9 |
| Denmark | 9 | 44 | 75,1 | 37,2 | Kosovo | 22 | 1 | 67,9 | 93,5 |
| Estonia | 2 | 16 | 79,1 | 81,2 | Macedonia | 18 | 2 | 70,7 | 91,9 |
| Finland | 13 | 27 | 74 | 66,6 | Moldova | 41 | 31 | 58,0 | 62,8 |
| France | 32 | 41 | 63,3 | 47,6 | Montenegro | 35 | 13 | 62,0 | 83,1 |
| Germany | 15 | 33 | 73,6 | 61,9 | Norway | 14 | 37 | 74,0 | 55,6 |
| Greece | 43 | 34 | 55 | 61,1 | Russia | 42 | 15 | 57,1 | 81,8 |
| Hungary | 27 | 18 | 65,8 | 79,3 | Serbia | 39 | 12 | 58,9 | 83,3 |
| Ireland | 3 | 23 | 76,7 | 72,7 | Switzerland | 1 | 24 | 81,5 | 70,9 |
| Italy | 34 | 38 | 62,5 | 54,9 | Turkey | 29 | 21 | 65,2 | 75,5 |
| Latvia | 11 | 9 | 74,8 | 84,7 | Ukraine | 44 | 19 | 48,1 | 78,6 |
| Lithuania | 8 | 7 | 75,8 | 86,9 | | | | | |
| Luxemburg | 6 | 29 | 75,9 | 64,5 | | | | | |
| Malta | 26 | 30 | 67,7 | 62,8 | | | | | |
| Netherlands | 7 | 39 | 75,8 | 53,2 | | | | | |
| Poland | 21 | 20 | 68,3 | 76 | | | | | |
| Portugal | 33 | 35 | 62,6 | 59,8 | | | | | |
| Romania | 20 | 5 | 69,7 | 87,4 | | | | | |
| Slovakia | 28 | 17 | 65,7 | 79,7 | | | | | |
| Slovenia | 38 | 36 | 59,2 | 58,7 | | | | | |
| Spain | 31 | 32 | 63,6 | 62,5 | | | | | |
| Sweden | 10 | 42 | 74,9 | 44,4 | | | | | |
| England | 4 | 28 | 76,4 | 65,1 | | | | | |

Resource: It was constructed by the author, based on the data of Eurostat, 2017[1] and IEF,2017 and Growth Pact accepted after Amsterdam Summit. Council Regulations and related guides are referred as the main documents that regulate the common fiscal rules. In line with these agreements, the member countries have to keep their public deficits under control. The other indicators that European Commission uses to follow the debt stocks of the countries are that the share of general budget deficit in GDP must be under 3 % and the ratio of gross debt stock to GDP must not exceed 60 %. The member countries have to present their medium-term budget strategies, stability and convergence program to the commission regularly (Kaya, 2009:27-37).

In Figure 2, the progress of the fiscal freedom scores of all countries, European Union member countries, non-member countries and Turkey between 1995 and 2017 is presented. The non-member countries are located among “mostly free” countries with scores between 70-80 by years, the member countries are located among “mostly unfree” countries with scores between 50-60 from 1995 to 2004 and among “moderately free” countries with scores 60-70 from 2004 to 2017. Turkey managed to enhance its location from “mostly unfree” countries in the 1990s to “mostly free” countries in the last ten years. When the world economy is evaluated in general, it is seen that fiscal freedom index is in “repressed” location with scores between 40 and 50. Herewith, fiscal freedom index of EU member countries, EU non-member countries and Turkey range above the world’s average by years. If member countries and non-member countries are compared with each other, it can be said that non-member countries were more free than the member countries.

Figure 2. *Fiscal Freedom Scores 1995-2017*




| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World | 53,66 | 52,55 | 46,47 | 49,98 | 48,78 | 50,03 | 48,83 | 46,58 | 47,71 | 48,90 | 48,93 | 48,95 | 48,98 | 49,00 | 45,68 | 46,77 | 46,79 | 46,81 | 45,77 | 45,80 | 46,88 | 45,84 | 45,82 |
| EU Non member | 57,13 | 66,96 | 49,64 | 69,01 | 63,83 | 71,11 | 71,90 | 76,16 | 75,62 | 72,03 | 77,94 | 74,92 | 78,44 | 77,37 | 79,39 | 76,10 | 80,86 | 79,25 | 82,71 | 82,42 | 79,17 | 82,01 | 81,40 |
| EU member | 52,51 | 53,98 | 53,01 | 52,28 | 53,18 | 53,81 | 55,63 | 57,38 | 59,56 | 60,94 | 61,70 | 63,02 | 64,26 | 64,93 | 65,18 | 65,30 | 65,80 | 67,50 | 67,34 | 68,02 | 66,74 | 67,08 | 66,30 |
| Turkey | 44,50 | 44,30 | 57,30 | 58,40 | 57,00 | 67,20 | 66,90 | 65,20 | 64,60 | 60,80 | 65,30 | 68,10 | 69,10 | 77,70 | 73,20 | 78,10 | 78,20 | 77,70 | 77,00 | 77,50 | 76,10 | 75,20 | 75,50 |

Resource: It was prepared by the researchers based on the data of IEF, 2017.

The progress of fiscal freedom scores of the countries between 1995 and 2017 may provide various evidence (see Table 3). Austria, Belgium, Denmark, France, Germany, Italy, Portugal, Slovenia, Sweden, the Netherlands and Norway were mostly unfree and repressed. Germany has been applying fiscal constraints since 1969. The reasons that lie behind this restriction are high expenditure level, lack of budget rules and the environment of uncertainty depending on the increasing fluctuation of income elasticity. French limits its fiscal freedom score by taking place among the countries that apply expenditure and income rule for centralized administration, expenditure rule for social security zone and budget balance rule for local administrations. English economy has put some decisions partake of reforms into practice since 1997 as a result of public deficits observed in the beginning of 1990s. The Golden Rule[5] applications of English government between 1997 and 2007 were concluded successfully. Spain tried to provide the fiscal discipline by the Law of Budget Stability which was put into practice in 2003. Portuguese, which could not cope with structural budget deficits and high expenditure level since the late 1990s, brought some fiscal rules for local and regional administrations through some legal regulations which were carried into effect in 2007. The banking crisis emerged in the 1990s made applications of fiscal rules a current issue in Sweden. In Sweden, the most important fiscal rule application is expenditure level. On the other hand, Swedish Financial Politics Council was formed in 2007.

[5] As it pertains to government spending, stipulates that a government must only borrow to invest, not to finance existing spending.

**Table 3.** *Progress of Fiscal Freedom Scores by Years*

| | 2017 | 2015 | 2013 | 2011 | 2009 | 2007 | 2005 | 2003 | 2001 | 1999 | 1997 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Austria | 50,3 | 50,1 | 51,1 | 50,3 | 49,9 | 50,3 | 44,4 | 45,3 | 44,2 | 45,5 | 46,1 | 46,3 |
| Belgium | 44,1 | 43,6 | 45,0 | 41,8 | 41,5 | 44,1 | 42,1 | 33,7 | 33,2 | 33,5 | 33,7 | |
| Bulgaria | 91 | 91,0 | 94 | 86,9 | 86,2 | 82,4 | 80,3 | 72,4 | 58,1 | 68 | 48,9 | 46 |
| Cyprus | 73 | 79,5 | 79,8 | 74,6 | 76,6 | 79,4 | 79 | 70,7 | 71,4 | 71,2 | 71,3 | |
| Czechia | 82,9 | 81,5 | 82,0 | 81 | 80,1 | 71,3 | 68,8 | 67 | 66,8 | 58,1 | 54,7 | 47,5 |
| Denmark | 37,2 | 39,6 | 39,8 | 43,2 | 35,4 | 34,2 | 33,9 | 32,6 | 31,6 | 30,5 | 30,5 | |
| Estonia | 81,2 | 80,6 | 79,7 | 80,7 | 81,5 | 84,5 | 82,9 | 80,4 | 79,6 | 72,8 | 71,4 | 82 |
| Finland | 66,6 | 66,4 | 66,9 | 65,3 | 64,3 | 63,1 | 58 | 54,9 | 55,6 | 38,4 | 54,9 | |
| France | 47,6 | 47,5 | 53,0 | 52,3 | 50,9 | 46,3 | 44,8 | 41,3 | 33,9 | 42,4 | 38,1 | 60,8 |
| Germany | 61,9 | 60,8 | 61,8 | 58,5 | 58,5 | 61,4 | 58,4 | 55,7 | 44,7 | 38,3 | 37,8 | 33,2 |
| Greece | 61,1 | 64,2 | 66,2 | 65,9 | 66,5 | 62,4 | 58 | 57,2 | 50,9 | 47,6 | 54 | 62,5 |
| Hungary | 79,3 | 78,7 | 79,7 | 69,7 | 70,6 | 68,8 | 67,9 | 65,6 | 65,7 | 62,6 | 54,4 | 46,8 |
| Ireland | 72,7 | 73,6 | 73,8 | 72,1 | 69,2 | 71,7 | 72,6 | 69,4 | 63 | 55,9 | 49,9 | 49,1 |
| Italy | 54,9 | 54,2 | 55,5 | 55,4 | 55,8 | 52,8 | 49,6 | 48 | 47,1 | 46,9 | 43,2 | 43,6 |
| Lithuania | 84,7 | 84,4 | 84,4 | 82,5 | 82,3 | 83,9 | 83,6 | 78,3 | 75,5 | 77,1 | 78 | |
| Letonia | 86,9 | 92,9 | 92,8 | 86,1 | 87,6 | 86,5 | 82,8 | 78,8 | 71 | 72,4 | 75,6 | |
| Luxemburg | 64,5 | 62,3 | 65,0 | 66,7 | 66,3 | 65,3 | 64,3 | 59,8 | 52,5 | 46,5 | 45,2 | |
| Malta | 62,8 | 63,1 | 61,2 | 62,5 | 63,1 | 61,1 | 62,2 | 63,5 | 65,7 | 67,5 | 68,4 | 68,2 |
| Poland | 76 | 82,1 | 76,0 | 74 | 69 | 68,6 | 68,3 | 65,6 | 61,3 | 53,2 | 49,5 | 51 |
| Portugal | 59,8 | 61,1 | 61,6 | 61,1 | 61,6 | 62,3 | 61,7 | 61,8 | 61,6 | 60,6 | 61 | 60,5 |
| Romania | 87,4 | 86,9 | 87,9 | 86,8 | 87 | 85,9 | 70,1 | 69,1 | 57,6 | 45 | 44,3 | 39,4 |
| Slovakia | 79,7 | 80,8 | 84,7 | 84,2 | 84,1 | 89,5 | 81,9 | 67,5 | 59,3 | 53 | 66,4 | 57,7 |
| Slovenia | 58,7 | 58,1 | 65,7 | 65,1 | 62,9 | 54,6 | 55,6 | 53,1 | 52,8 | 52,4 | 51,4 | |
| Spain | 62,5 | 53,1 | 53,9 | 61 | 58,6 | 55,2 | 55,4 | 52,6 | 53,8 | 46,5 | 45,8 | 45,2 |
| Sweden | 44,4 | 43,0 | 39,6 | 37,6 | 35 | 33,1 | 33,7 | 40,8 | 33,7 | 35,4 | 39,5 | 44 |
| The | 53,2 | 51,8 | 52,1 | 50,6 | 50,9 | 48,8 | 45,7 | 44,1 | 38,4 | 37,1 | 34,1 | |
| England | 65,1 | 62,9 | 57,0 | 52 | 61 | 62 | 62,3 | 60,9 | 61,7 | 62,3 | 61,7 | 61,3 |
| Albania | 86,9 | 87,2 | 92,6 | 92,1 | 92,8 | 87,3 | 83,3 | 83,8 | 79,5 | 82,9 | 81,5 | 81,7 |
| Armenia | 83,7 | 84,4 | 88,0 | 89,2 | 90 | 89,7 | 89,9 | 88,9 | 81,9 | 80,3 | 80,7 | |
| Belarus | 89,8 | 86,4 | 88,8 | 83,6 | 79,4 | 81,8 | 76,2 | 65,3 | 66 | 44,9 | 38 | 42 |
| Bosnia | 83,5 | 82,9 | 83,2 | 83,9 | 71,8 | 74,9 | 70,1 | 66,1 | 67 | 78,8 | | |
| Croatia | 66,8 | 74,9 | 75,4 | 74,6 | 68,7 | 69,9 | 59,3 | 77,6 | 66,9 | 68,4 | 74,4 | |
| Georgia | 87,3 | 87,2 | 88,2 | 87,5 | 86,8 | 91,2 | 89,9 | 90,6 | 90,9 | 91,3 | 92 | |
| Iceland | 70,9 | 72 | 72,7 | 69,8 | 76,2 | 73,5 | 72,5 | 69 | 62,9 | 60,5 | 61,6 | |
| Macedonia | 91,9 | 91,4 | 91,4 | 90 | 89,4 | 85 | 83,6 | 80,3 | | | | |
| Moldova | 86,1 | 85,1 | 87,2 | 85,6 | 85,3 | 85,6 | 84,5 | 81,3 | 54,5 | 58,5 | 59 | 37,3 |
| Montenegro | 83,1 | 92,6 | 92,4 | 89,4 | 89,1 | | | 79,8 | | | | |
| Russia | 81,8 | 86,1 | 86,9 | 82,7 | 78,9 | 79,5 | 91,5 | 90,6 | 74,7 | 74,3 | 77,7 | 75,5 |
| Serbia | 83,3 | 82,4 | 84,2 | 83,6 | 83,2 | | | | 89,8 | | | |
| Switzerland | 70,9 | 68,0 | 68,1 | 68,4 | 67,5 | 67,9 | 73 | 80,4 | 80,1 | 80,4 | 77,7 | |
| Turkey | 75,5 | 76,1 | 77,0 | 78,2 | 73,2 | 69,1 | 65,3 | 64,6 | 66,9 | 57 | 57,3 | 44,5 |
| Norway | 55,6 | 52,1 | 51,0 | 51,6 | 50,3 | 50,6 | 50,4 | 50,9 | 56,7 | 57,9 | 58 | |
| Kosova | 93,5 | N/A | 93,5 | | | | | | | | | |
| Ukraine | 78,6 | 78,7 | 78,2 | 77,3 | 77 | 83,6 | 83 | 67,1 | 63,8 | 63 | 61,1 | 61,8 |

Source: IEF 1995-2017

Since 1980s, another country which has been subject to fiscal indiscipline is the Dutch economy. Dutch government took a series of precautions for providing fiscal discipline by putting an expenditure level for centralized administration, social security labor market and health sector. Belgian and Danish economies apply three main fiscal rule including expenditure, income and budget balance so as to provide fiscal discipline (Dede,2010:72-90, Kaya,2009:44-50).

Romania continues to recover from the recent global economic slowdown and has made fiscal sustainability a priority. The country continues to have the highest poverty rate in European Union. Progress on implementing reforms and improving the business environment has been uneven. The unpredictable and uneven regulatory system encourages foreign investors for doing business in Romania. Efforts to privatize state owned enterprises have stalled in the past two years. Corruption is endemic at all levels of government and undermines the rule of law. By the end of 2008, economies were exposed to strict economical regulations. Increasing budget deficits repress the government financially. Privatization of banking sector, reduction of the employees' wages in the public sector and rehabilitation of tax office were the reforms which were made earlier. In addition to these, some deeper reforms are needed in the management of public finance and labor market.

Bulgaria has implemented satisfactory economic reforms during fifteen years. Some progress was made during the process of increasing the income and reducing the poverty while providing macro-economic stability. Bulgaria's transition to a more open and flexible economic system has been facilitated by substantial restructuring. Competitive flat tax rates and an open trade regime, supported by a relatively efficient regulatory framework, have encouraged development of a growing private sector. The financial sector demonstrated a relatively high level of resilience during the 2014 liquidity crisis. The management of public finance has been relatively sound. The level of public debt continues to be among the lowest in the region, with budget deficits declining. However, deeper and more committed institutional reforms are needed in areas like judicial effectiveness and government integrity to help ensure long-term economic development.

Despite the challenging economic environment within the European Union, Germany continues to be one of the world's most powerful and dynamic economies. Business freedom and investment freedom are strong. Long-term competitiveness and entrepreneurial growth are supported by openness to global commerce, well-protected property rights, and a sound business regulatory environment. The Germany has gradually emerged from the effects of the global financial crisis, which had an acute negative impact both on Germany's public finances and on its economic growth. Actions required to hold the eurozone together have taken a toll, and the more recent migrant crisis has had huge political, economic, and societal impacts within the country.

The economy of the Netherlands benefits from a traditional emphasis on the rule of law and a robust legal framework. The judicial system, independent and free of corruption, provides strong protection of property rights. Openness to global trade and investment is well established, and the overall regulatory environment remains transparent and efficient. Government spending has been expansive, but the coalition government has made some progress in narrowing the budget deficit. Cutback on health care and social security spending have helped to place public finances on a more secure footing. In an attempt to strengthen work incentives and reduce fiscal pressures, the government has introduced reforms in the labor market and pensions.

Implementation of critical reforms in many areas has gradually expanded the Czech Republic's vibrant private sector. Business start-up procedures have been streamlined, and a relatively efficient tax regime facilitates entrepreneurial growth. With openness to global trade and investment fully institutionalized, the Czech Republic has one of the lowest unemployment rates in the European Union. Continuing fiscal consolidation and better management of public finance will be critical to controlling inflation and ensuring economic resilience. The Eurozone crisis has dampened public support for adopting the euro, and prospects for its adoption remain uncertain. Contributing to overall stability and competitiveness, a relatively sound legal framework sustains judicial effectiveness and government integrity.

Croatia lags behind many of its neighbors in structural economic reform, and institutional shortcomings continue to hold back entrepreneurial growth. Recent fiscal reforms have been limited in scope and depth. Political volatility and pervasive corruption undermine the rule of law, and protection of property rights remains weak. The state's presence in private-sector activity remains intrusive, and the level of government spending is high. Few meaningful efforts have been made to reduce or control government spending, and the bloated public sector severely constrains private-sector dynamism, prolonging the economic downturn. Government ownership in such key sectors as transport, natural resources, and banking remains considerable.

Belarus has achieved minor success in deregulation, but more liberal economic policies have not been a priority. Pervasive state involvement and control hamper the economy. Restructuring of the economic system has been very slow, and the small private sector is marginalized. Undercut by domestic structural weaknesses, the economy has little resilience against external shocks. Corruption remains widespread, and the ineffective judiciary and time-consuming bureaucracy undermine the enforcement of property rights. Government interference with the private sector holds monetary freedom, investment freedom, and financial freedom far below average levels. Public debt has risen, partly due to increasing losses in the state-owned enterprises.

Moldova has gradually recovered from a sharp economic slowdown over the past three years, with growth driven largely by remittance-based consumption and modest credit expansion. Some new momentum has been generated for improving the business environment and further liberalizing the trade regime. However, the transition to a more stable market-oriented economy remains fragile. The government's overall commitment to enhancing the entrepreneurial climate and advancing economic freedom has been uneven. Despite several privatizations, the public sector still plays a dominant role in the economy. The foundations of economic freedom are not firmly institutionalized, and the judiciary remains vulnerable to political interference and corruption.

Switzerland’s openness to foreign trade and investment continues to stimulate a dynamic and resilient economy. With a sound regulatory environment and minimal barriers to entrepreneurial growth, Switzeland is one of the most competitive and innovative in the world. Macroeconomic stability and a highly developed financial sector reinforce the country’s position as a global financial hub. Well-secured property rights, including intellectual property rights, promote entrepreneurship and productivity growth. Flexible labor regulations and the absence of corruption also sustain vibrant entrepreneurship. Inflationary pressures are under control. The legal system, independent of political influence, ensures strong enforcement of contracts and judicial effectiveness. Taxation is more burdensome at the cantonal levels than at the federal level.

Georgia’s government has maintained strong momentum in liberalizing economic activity while taking steps to restore fiscal discipline. Public debt and budget deficits remain under control. Open-market policies, supported by competitively low tax rates and regulatory efficiency, have facilitated flows of trade and investment. Large-scale privatization has advanced, and anticorruption efforts have yielded some notable results. With monetary stability and the overall soundness of fiscal health relatively well maintained, Georgia has enjoyed macroeconomic resilience. Nonetheless, deeper and more rapid institutional reforms to enhance judicial independence and effectiveness remain critical to ensuring further dynamic and lasting economic development.

**Evaluation of Fiscal Freedom of Turkish Economy**

Fiscal inadequacies, a fragile financial system and policies for providing the stability are the prominent factors in Turkish economy during the 1990s. Fiscal inadequacies have guided the current government becoming indebted with a high risk premium which could force the public finance. At the same time, exclusion of public expenditures from the budget has caused corruption by preventing the formation of a transparency policy. In this way, both domestic and external indebtment levels came up rapidly. Following the fiscal indiscipline which was observed during the 1990s, successive crisis in 2000 and 2001 have forced to take urgent precautions in Turkish economy. It was aimed to finance the internal debt stock with external indebtment by achieving primary surplus and increase the privatization targets. European Union Convergence process, the high level budget deficit of the year 2001 and the pressure made by the society on the political power have revealed the necessity to reform the financial management. In this period, some steps were taken in order to provide the fiscal discipline with the law no.5018 and the current agreement signed with International Monetary Fund. Until

2007, a major recovery in markets, an increase in GDP and a surplus in public sector borrowing requirement were observed. After long years, the inflation fell down to one-digit number for the first time. Together with the economic crisis in 2008, these indicators were influenced negatively and it resulted in an increase in budget deficit and debt stock. The problem of budget deficit and debt stock lying behind the crises which were experienced in many European Union member countries has got a stimuli quality for providing the fiscal discipline for Turkey (Karakurt and Akdemir, 2010:331, Binay, 2003:258).

In the following process, the application of open and free fiscal rules has been started. In the strategy of the Ministry of Finance covering the years between 2008 and 2012, it was emphasized that forming a substantial and orderly fiscal structure was required. Due to the effect of global crisis, a Medium-Term Program including the years between 2010 and 2012 was published in December 2009, it was sent to the Assembly in 2010, it was adopted that it would take place in Turkish Public Fiscal Management in 2011 (Civriz,2010:377).

The targets of making the achievements obtained in the field of public finance management constant, providing the long-term predictability in public finance policies, strengthening the trust and stability, reducing public indebtment cost by ensuring the descent in the risk premium together with the increasing credibility, keeping the public deficits and burden of debt at sustainable levels, empowering the trust to public finance before the markets and public opinion and undertaking a subsidiary role in modernizing the public finance management take place in Fiscal Rule Law Proposal which was sent to the Turkish Grand National Assembly in 2010 (Aktan,2011:11).

Turkey has started to own a more organized and productive job environment in the recent years. Despite *government over- intervention* in economy, private sector has gained importance day to day. After the bankrupts of banks in 2001, financial turmoil has been relatively reduced by regulation policy of government for banking sector. Precautions for providing macro-economic stability, including the temporary indirect tax discounts were considerably invalidated. It can be said that the regulatory regime which Turkey owns has a serious structure that prevents dynamic enterprising activities despite some recoveries. Turkey has maintained overall macroeconomic stability despite ongoing political turmoil. Fiscal policy has been fairly prudent and has kept budget deficits and public debt under control, but inflationary pressures have increased. The financial sector remains stable and competitive. However, prospects for economic growth in Turkey have been notably affected by political developments since the second half of 2016. Critical challenges include lack of transparency in government and erosion of the rule of law. The judicial system has become more susceptible to political influence.

Turkey has a relatively higher rate of income tax and lower corporation income taxes. The top personal income tax rate is 35 percent, and the top corporate tax rate is 20 percent. Other taxes as value-added tax and environment tax. The overall tax burden equals 28.7 percent of total domestic income. Government spending has amounted to 37.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.2 percent of GDP. Public debt is equivalent to 32.6 percent of GDP. The fiscal freedom score which was 44,5 in 1995 could be increased to 75,5 in 2017 progressively (IEF,2017,290-291).

**Conclusion**

Economic conditions which changed in parallel with the globalization of the production and markets all around the world force the countries to take steps for development. Together with the changing economic conditions, the governments face the cost of increasing taxes which finance their expenditure programs. The relative convenience experienced in international trade, mobilization of capital and communication facilitate the choice of the place for production and the transfer of tax burden. Deciding the production location and taxable capacity become more of an issue in determining interregional tax rates. Therefore, the governments become under pressure to decrease the tax burden on investment, income and commercial activities.

The concept of fiscal freedom, which is defined as the measurement of tax burden by the state and the direct method of measurement of the allowance of individuals and institutions to use their incomes and fortunes for their own benefits, is important in terms of the countries' development indicators. Private sector can have chances to play roles in economic activities more often in the economies in which the level of fiscal freedom is high. The obstacles on the protection of property rights can be reduced by the abatement of tax burdens. High tax rates can also result in the individuals' loss of desire to work and invest. When it is considered in terms of international tax competition, the countries can reach the capital system they need to meet their growth targets by increasing fiscal freedom scores. Upon providing the fiscal freedoms, the existence of underground economy, bribery and corruption is expected to decrease.

When the average fiscal score of European Region in 2017 is compared with the scores of the other continents, it is observed that European Region has the lowest average in the world. A dramatic decrease in the levels of fiscal freedom, public expenditures and labor freedom is observed depending on the cost of being welfare states in the European Region, which is tried to be investigated under two main titles as 28 European Union member countries and 16 European Union non-member countries. It can be said that the European Union member countries are more free economically but not free fiscally. Fiscal policy implemantations based on rules lie behind the pressure on the fiscal freedom scores of European Union member countries. The fiscal rule that is applied in European Union member countries imposes some restrictions on the management of debt stock. Fiscal freedom scores of emerging and developing countries are high due to low tax rate and government spending. This is quite normal for economies that are developing economically and socially, but not a result of liberal policies.

In the European Region countries, fiscal freedom scores showed an increase between the years of 1995 and 2017. It can be said that international economical interactions which ascended with globalization lie behind this increase. The European Union non-member countries were "moderately free" between the years of 1995 and 2000 and "mostly free" between the years of 2000 and 2017. On the other hand, the European Union member countries were "mostly unfree" between the years of 1995 and 2004 and "moderately free" between the years of 2000 and 2017. Upon the steps for providing the fiscal discipline, Turkey managed to increase its location in "mostly unfree" countries in the 1990s to "mostly free" countries in the last decade.

Fiscal policies determine the fiscal flow between citizen and government. Increasing fiscal freedom with the reduction of tax burden and tax evasion also positively affects the behavior of taxpayers. Taxpayers' positive approaches to the effectiveness of the government lead to a reduction in tax evasion with tax compliance. Policies to improve the living standards of citizens will increase taxpayers' tax efforts.In the current economic situation, it is difficult to implement the policies that will change the current course of the economy, but the economic structure and rules for the needs of the contemporary society need to be revised. Thus, a better economic system can be achieved by ensuring balance and harmony between economic agents.

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