

ISSN: 2602-4152  
E-ISSN: 2602-3954



Volume: 73, Issue: 2, Year: 2023

# İstanbul İktisat Dergisi

## Istanbul Journal of Economics





İstanbul İktisat Dergisi - Istanbul Journal of Economics  
Volume: 73, Issue: 2, 2023  
ISSN: 2602-4152  
E-ISSN: 2602-3954



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<https://dergipark.org.tr/tr/pub/istjecon>  
<https://iupress.istanbul.edu.tr/tr/journal/ije/home>

**Publisher**

Istanbul University Press  
Istanbul University, Faculty of Economics, Main Campus,  
Beyazıt, Fatih, 34452, İstanbul, Türkiye  
Phone: +90 (212) 440 00 00

**Printed by**

İlbey Matbaa Kağıt Reklam Org. MÜc. San. Tic. Ltd. Şti.  
2. Matbaacılar Sitesi 3NB 3 Topkapı / Zeytinburnu, İstanbul, Türkiye  
[www.ilbeymatbaa.com.tr](http://www.ilbeymatbaa.com.tr)  
Certificate Number: 51632

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*Authors bear responsibility for the content of their published articles.*

*The publication language of the journal is English.*

*This is a scholarly, international, peer-reviewed and open-access journal published biannually in June and December.*

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**Publication Type:** Periodical

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İstanbul İktisat Dergisi - Istanbul Journal of Economics  
Volume: 73, Issue: 2, 2023  
ISSN: 2602-4152  
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## Changing the Course of Tax Narrative: Relationality, Sociality, and Postcapitalist Possibilities

Metehan CÖMERT<sup>1</sup> 

### ABSTRACT

This study seeks to challenge the mainstream understanding of taxes and argues that the theoretical foundation of tax narratives should be reconstructed with a critical eye. By broadening the scope of theoretical context, the study expands on the purely economic conceptualization of taxes that has dominated the tax literature to date and introduces alternative interpretations that transcend mainstream barriers. In this context, starting from the argument that taxes cannot be understood solely through the realm of coercion the paper explores the integral role of taxes in shaping the modern fiscal state while highlighting their connections to broader concepts, such as "social transformation," "ideology," "class conflict," and "the human individual." Through these efforts, the study seeks to enrich the existing tax literature and concludes with "five theses" that encourage readers to view taxes through the lenses of "relationality" and "temporality," and proposes a radical shift in the discourse surrounding tax debates within the context of postcapitalism.

**Keywords:** Tax, Public Finance theory, Fiscal sociology, Fiscal anthropology, Postcapitalism

**JEL Classification:** H10, H20, B50



DOI: 10.26650/ISTJECON2023-1197370

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**Submitted:** 31.10.2022

**Accepted:** 19.10.2023

**Citation:** Comert, M. (2023). Changing the course of tax narrative: relationality, sociality, and postcapitalist possibilities. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 645-674. <https://doi.org/10.26650/ISTJECON2023-1197370>



## 1. Introduction: Putting “Taxes” into the Core of Social Sciences

Asking anyone anywhere in the world at any time to define taxes will typically yield a simple, if not precise definition. These definitions will undoubtedly include a broad range of ideas, including taxes as a civil duty, a tool of oppression, a rule to be obeyed, or something to be refused. This variability is not unique to taxes; in the grand tradition of the social sciences, almost all subjects are inherently contradictory and lead to disparate interpretations. However, despite the vast literature on taxes the concept remains surprisingly under-theorized, strictly confined to the context of “pure economism” and “coercion,” and defined by its compulsory and unrequited nature. The present study seeks to expand the theoretical framework of taxes by enacting a shift away from strict economic and coercive definitions and toward a more nuanced understanding.

Rejecting an abstract interpretation and transcending traditional boundaries, an introduction to tax phenomenon can be metaphorically derived from Akaky Akakievich, the protagonist of Gogol's short story “the overcoat,” and his existential relation with the garment. Throughout the story, the reader notices that the overcoat and Akaky's existence are inextricably linked; this fictional interaction serves as a poignant analogy of the existential relationship between the state and taxes. Consequently, taxes underpin the conceptual mechanism that shapes the fundamental nature the state. In an academic environment where social sciences succumb to a rigid “economization,” emphasizing the state-making role of taxes deserves praise. Nevertheless, this explanation can only account for a small part of the tax odyssey. Bearing in mind that “[e]ach moment of human history is, to a greater or a lesser degree, an open-ended situation” (Bauman, 1976, p. 10) and acknowledging the myriad possibilities awaiting exploration, additional facets of the phenomenon are yet to be unveiled. In essence, the potential for greater insights lies uncovered in tax relations:

Historians know that taxation has been a pivotal source of conflict ... and that taxes have been central to the formation of civic identity across place and time. Sociologists know that *nearly every issue* [emphasis added] runs through the issue of taxation (Martin et al., 2009, p. 1).

Joseph A. Schumpeter (1883–1950), an influential political economist widely recognized as one of the twentieth century's foremost intellectuals in the field of economic history and theory, was keenly aware of the profound and far-reaching influences exerted by taxes:

The spirit of the people, its cultural level, its social structure, the deeds its policy may prepare – all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else. (Schumpeter, 1991 [1918], p. 101).

Furthermore, Schupempeter clearly outlines the fundamental path that a researcher in public finance ought to follow, asserting: “The public finances are one of the best starting points for an investigation of society.” Drawing on Schumpeter’s compelling argument regarding the transformative influence of taxes in shaping the destinies of nations, we can confidently state that the central thesis of this study is succinctly encapsulated in a single proposition : Tax matters more than we have been told.

Guided by the principle of a revolutionary reconceptualization of tax frameworks, this study is divided into three distinct sections, each systematically exploring the nuanced perspective that extends beyond conventional tax definitions. The following two sections offer introductory narrative accounts that showcase the range of areas influenced by the concept of taxes, while also providing a historical framework for the intertwining of capitalism and taxation. Finally, the last part of the study sketches the broad outlines of alternative interpretations for tax phenomenon.

## **2. “Painting the Devil”: Moving Beyond Boundaries**

Although our initial argument addresses the central role of taxes in shaping the modern state through the concept of “world-making through taxation,” it is evident that the discourse surrounding taxes has regrettably succumbed to oversimplification, confined within the narrow boundaries of mainstream economics. Consequently, this concept has remained relatively static,

predominantly explained in economic terms within the limitations of traditional interpretations. According to the well-established definition by the Organization for Economic Cooperation and Development (OECD), taxes refer to “compulsory, unrequited payments to the general government.” In this context, the term “unrequited” signifies that taxpayers do not receive benefits from the government precisely commensurate with their contributions (OECD, 1988). Hugh Dalton, a notable British public finance economist and prominent member of the Labour Party, defines taxes as “a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as a penalty for any legal offense” (Dalton, 2003 [1922], p. 32).

The field of public finance has been characterized by a limited range of definitions for taxes that are often nearly identical with minor changes. For example, Plehn (1921), a professor of public finance, builds his argument on Seligman’s implications and asserts that taxes are “general compulsory contributions of wealth levied upon persons, natural, or corporate, to defray the expenses incurred in conferring a common benefit upon the residents of the state”(p. 59). Similarly, Shirras (1925), in his book titled *The Science of Public Finance*, states that taxes are paid for “the participation in common benefits and not for any special advantages enjoyed by the taxpayer” (p.113). Even the leading figure in the Italian public finance tradition, *la scienza delle finanze*, De Viti De Marco (1936) grasps taxes as “a share of the income of citizens which the state appropriates in order to procure for itself the means necessary for the production of general public services” (p. 111).

As the careful reader must have noticed, there is a prevailing consensus within the literature regarding the traditional definition of taxes. Nevertheless, confining the definition of taxes to this traditional framework neglects the intricate realities of the contemporary world, marked by swift and substantial transformations in virtually every facet of life. In view of this, the present study seeks to expand on the narrow definitions in the literature by widening the scope of the term. First and foremost, the field of taxes can be conceived as one of the most perpetual and widespread relationships that exist between citizens and the state, exhibiting

a dynamic and pervasive nature that constitutes a central element in comprehending modernity (Mumford, 2019, p. 12). With its lurching dynamism, marked by its capacity to drive both warfare and the construction of the modern state, taxation harbors a potential significance far surpassing initial perceptions. Taking a radical stance, Mehrotra (2017, p. 284–285) contextualizes taxation within its historical context, emphasizing its pivotal role as the lifeblood of the modern liberal state. By echoing Pierre Bourdieu's famous metaphor, "the right hand and the left hand of the states," Mehrotra explains the relative superiority of generating public revenue and states that the modern state's existence hinges on the presence of an effective and permanent mechanism of generating public revenue:

Taxation is the one policy area without which nearly all of the other functions and aspects of the state would be *impossible* [emphasis added]. Conversely, most failed states can frequently trace their dysfunction to an inability to generate public revenues in a fair and effective manner... Thus, to continue the Bourdieusian metaphor, the administration of fiscal policy may represent the forearms of the body politic with taxation as the *lifeblood* [emphasis added] of the modern liberal state (Mehrotra, 2017, p. 284–285).

Bob Jessop, a prominent contemporary professor specializing in state theory and political economy, provides a nuanced examination of the nexus between the state and taxes. According to Jessop (1993), taxes serve as the lifeblood of the capitalist state, rendering it fundamentally a Schumpeterian tax state. This conceptualization underscores the unequivocal role of the incremental augmentation of taxes in the establishment of the modern state, initially through tax collection during times of war and subsequently the sustenance for national defense. Nonetheless, while it is commendable to regard taxes as a significant political and social factor throughout history, explaining tax theorizing purely through historical or state-centric perspectives is still insufficient.

Given the aforementioned details, a wide variety of questions are expected to be answered. Tax, in one form or another, is the principal means by which the state collects and redistributes wealth. As Saez and Zucman (2019) note, collected taxes are redistributed by the government to real people in the form of cash, in kind benefits, or through the wages of public sector employees. Taxation; thus, emerges

as a central theme deeply embedded in distributional relations. In Marxist terminology, taxes are expected to be levied on a particular “class.” This raises the pertinent question of who, or which class, ultimately bears the weight of taxes? The history of capitalism shows that the tax burden is often shifted to the working or the middle-class. To put it baldly, the question at hand is straightforward: will the wealthy be taxed, or will the 99% of the population shoulder the burden?<sup>1</sup> Indeed, this question reflects widely known rhetorical slogans: “How does the government spend ‘my’ taxes?” and “Where do my taxes go?”

Moreover, we are acutely aware of the critical role that taxation plays in establishing relations between the state and its citizens. As articulated by Björklund Larsen (2018) in her influential book *A Fair Share of Tax: Fiscal Anthropology of Contemporary Sweden*, “[t]axes can be utterly boring, as can many, many other subjects. But if we think about taxes as forging social relationships, the perspective changes.” Likewise, Sheild Johansson (2020) elaborates further on the concept of fiscal anthropology by stating that “[t]axes exist in political and cultural contexts where they shape social relationships and take on diverse meanings.” To that end, it is paramount to broaden the scope of tax debates to incorporate their inherent “diversity” and “complexity.” Sven Steinmo, a professor of political science at the University of Colorado, emphasizes this point, noting that “[t]he politics of taxation is one of the most important policy concerns in the modern industrial state; yet we know very little about it” (Steinmo, 1993, p. 1).

Given that taxes are often narrowly examined through a “vulgar economization,” it is essential to go beyond the analytical tools developed mostly by mainstream economists. In her influential book *Taxation: A Fieldwork Research Handbook*, Oats (2012) highlights the necessity of analyzing tax phenomena within a holistic framework that integrates interdisciplinary perspectives from various strands of social sciences, rather than relying on a single disciplinary perspective. Framing taxation as a social and institutional practice, Gracia and Oats (2015) address the

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<sup>1</sup> “We are the 99%” is the famous slogan of Occupy Wall Street movement.

fact that existing tax literature is firmly rooted in “a positivist tradition seeking causal explanations, measuring, quantifying, and striving for value-free scientific knowledge.” Moreover, Boden et al. (2010) expressly underscore the deficiency in the current intellectual understanding of tax matters, calling for a more nuanced approach that recognizes the complex mechanisms and social relations involved in taxation:

Tax is a specialized area of expertise with constantly shifting rules and boundaries. As a rule-bound field it is easy prey for positivism across all the disciplines to which tax matters. This means that, where the study of tax occurs, positivism tends to prevail. In tax law this takes the form of black letter, formalist analyses; in political science, understandings based on rational actor models of human behavior. And in accounting, analyses of tax tend to be subsumed within market-based research, behavioral science or similar epistemic approaches (Boden et al., 2010, p. 541)

Having laid out the inherent contradictions of characterizing the tax realm as a mere “specialized area of expertise” or a “rule-bound technical issue” under the banner of formalism and positivism, we reiterate our oppositional stance, arguing that tax matters and there is a considerable expanse of unexplored territory within the domain of taxation . Notably, taxation transcends its technical facade, constituting an inherently political, social, and ideological construct .In this regard, Oats (2012, p. 4) argues that taxation is a social and institutional practice that must be understood not only diachronically but also contextually. Beyond its technicalities, taxes emerge as a potent indicator of transformative shifts occurring within states and societies, wherein the state assumes the role of either oppressing or fostering the well-being of its citizens. In response, individuals may either revolt or grant their consent, vividly illustrating the transformative and revolutionary potential inherent in taxation. Similarly, Saez and Zucman (2019) ardently champion taxes as a cornerstone of cooperation, collective action, prosperity, and common destiny. For the authors, the tax system stands as the most crucial institution within any democratic society.

Going forward, we can now turn our attention to more radical perspectives to bolster the notion that taxes possess an inherently revolutionary potential for stimulating fruitful discussions. Although David Harvey, a distinguished professor

of anthropology and geography and one of the most well-known Marxist intellectuals, claims that Marxist theorizing on taxes is unexpectedly an “empty box”<sup>2</sup> to be improved, it is still possible to provide a general overview of the fundamental features of taxes in Marxist terminology. The Marxist tradition regards the state as “the repressive apparatus of the bourgeoisie” and “an institution of the ruling class” (Hay, 1999). In this context, the state “takes form in the person of the tax collector, or tribute-gatherer, with an armed man at his back” (Draper, 1970, p. 281). Marx himself is equally radical, stating that “[w]hen the French peasant paints the devil, he paints him in the guise of a tax collector” (Marx, 2001 [1895], p. 129). In other words, Marx places strong emphasis on the impossibility of conceiving taxation separately from the idea of the state. For this reason in *The Class Struggles in France*, Marx cites the arguments of Montalembert, the Jesuit chief at that time, for restoration of wine tax:

Taxation is the *maternal breast on which the government is suckled* [emphasis added]. The government is the instrument of repression; it is the organs of authority; it is the army; it is the police; it is the officials, the judges, the ministers; it is the priests. An attack on taxation is an attack by the anarchists on the sentinels of order ... Taxation is the fifth god<sup>3</sup>, side by side with property, the family, order, and religion (Marx, 2001 [1895], p. 128).

Montalembert's speech is a remarkable reflection of its time as he equates taxation with “the order,” a sure-footed forward march in grasping taxes as an inseparable part of the capitalist state. In citing Montalembert's speech, Marx redirects the discourse on taxation toward viewing the state as a source of financing for mechanisms of coercion and violence. The message is quite clear : criticizing taxes equates to challenging the very existence of the state. According to Marx, even tax reform poses difficulties. In response to Emile de Girardin's proposal to abolish taxes, Marx artfully counters: “Tax reform is the hobbyhorse of all radical bourgeois, the specific element of all bourgeois-economic reforms. From the oldest medieval philistines to the modern free-traders, the main fight

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<sup>2</sup> For details, see Harvey (2017).

<sup>3</sup> The reason why he conceives taxes as the fifth god is that the first four gods are property, family, order, and religion.



revolves around taxes" (Draper, 1970, p. 281). Therefore, any attempt to fix, strengthen, or reorganize the tax system should be seen as inherently "ordinary bourgeois" practice.

In his study titled "Can the Subaltern be Taxed?" within a collaborative volume delving into the sociality of public finance theory, Seçilmiş (2023) ventures beyond the conventional tax discourse, transforming it into an existential inquiry. Within the framework of the ubiquitous catchphrase, "no taxation without representation," Seçilmiş contends that attitudes toward taxes are consistently laden with metaphorical weight. Drawing a parallel with Derrida's treatment of the gift as "the impossible," the author introduces probing inquiries, such as "if the ruler provides representation, does that mean we are obliged to pay taxes?" In other words, is it possible to avoid paying taxes even though we are represented? After establishing that "representation is a fundamental problem in tax relation," Seçilmiş (2023) delves deeper into the query: is it possible to be represented?

Seçilmiş (2023) deserves credit for steering the tax debate toward the ontological question of who can genuinely be represented. Through a meticulous analysis focused on the subaltern, the author unveils the inherent impossibility at the heart of taxation. Drawing inspiration from the insights of the 18<sup>th</sup>-century, Seçilmiş (2023) directs our attention to the assertion that "[t]here are two distinct classes of men in the nation, those who pay taxes, and those who receive, and live upon the taxes." In any society, the authority to collect taxes belongs to the dominant class, or the state apparatus, which has the power to impose coercion. The dominant class must then create a social contract based on the notion of "false consensus." This concept is the focal point of Seçilmiş' central thesis, which expands our effort to broaden the scope of taxes into an entirely new dimension: It is possible to describe all assets that one class forcibly transfers from another class as "taxes," regardless of how they are conceptualized.

This study aims to engage with taxes, but there are many scoping issues that need to be addressed first. Thus far, our introductory text has provided a glimpse of the extensive domains influenced by the idea of taxes. However, it is crucial to

note that taxes have not been adequately theorized in the contexts of economics and the discipline of public finance. To that end, before delving into an in-depth and critical analysis of taxes and potential future trajectories, we will first attempt to understand the idea of taxes in a historical context.

### **3. A Brief History of the Intertwining of Capitalism and Taxes: From the Sphere of Public Finance to the Sphere of Sociology**

While positing that the tax journey spans the entirety of human history is not a groundbreaking concept, the proposition to elevate taxes as a research priority transcends conventional interpretations. This is due to its emphasis on the significant influence of taxes on the evolution of societies and states, rendering it an intriguing proposition. Rudolf Goldscheid, a notable Austrian Marxist sociologist, staunchly asserts that public finance is a central element for comprehending history at all times. According to Goldscheid (1958, p. 203), “[t]ax struggles were the oldest form of class struggle, and fiscal matters were an important contributory cause even in the mightiest spiritual movements of mankind.” The attentive reader might have perceived that this observation deviates from Seligman’s perspective, where fiscal conditions are regarded as the outcome of economic relations. Conversely, Goldscheid confidently claims that tax is a determining force that radically shapes history.

Regardless of how taxes are understood and theorized, writing a summary of the entire human adventure in the realm of public finance exceeds the scope of any study. However, viewing the study of taxation as a broad research program that encompasses a vast field of historical investigation provides a framework with which to approach this complex topic. Hence, for the sake of clarity, we will examine the relationship between taxes and the state within the borders of the capitalist epoch, leaving aside a long historical range.

Understanding capitalism as an epoch-shaping historical category stems from the premise that the systematic raising of taxes evolved into an increasingly imperative need for governments of that time. In alignment with the

Schumpeterian perspective, Petersen (1975) argues in his article titled "From Domain State to Tax State" that governments required cash revenues for military purposes during the transition from the Middle Ages to the early modern period. Consequently, this financial demand became the primary catalyst for a profound societal transmutation: "The needs for taxes both signposted the shift from the medieval domain state and a subsistence economy and itself hastened the transition from a barter to a cash economy" (Petersen, 1975, p. 116). This marks the transition from the domain state to the tax state. Fritz Karl Mann (1883–1979), widely acknowledged as an international authority on the discipline of public finance, eloquently explains the historical transformation of taxes from voluntary contributions to enduring, permanent payments:

While, from the 16<sup>th</sup> to the 18<sup>th</sup> century, tax collection was considered as an expedient in times of emergency and even an abuse which as soon as possible should be replaced by income derived from public property, particularly domains, and by voluntary contributions, common opinion has gradually acquiesced in its permanent character. Current taxation is the inseparable twin of the modern state. Broadly speaking, taxation has gradually moved from the sphere of public finance into the sphere of sociology (Mann, 1943, p. 225).

The astute reader might have discerned Mann's argument asserting that taxes, over time, have transitioned from the sphere of public finance to that of sociology, a notion prominently echoed in Goldscheid's work, "Sociological Approach to Problems of Public Finance." Highlighting the absence of sociological underpinnings in public finance, Goldscheid (1958, p. 202) states that sociology is "the only way to show how social conditions determine public needs and the manner of their satisfaction." Indeed, sociology offers profound insights into "how ultimately the pattern and evolution of society determine the shaping of the interrelations between public expenditure and public revenue." Nevertheless, the discipline of public finance overlooks the mechanisms of mutual interdependence between expenditure and revenue, often relying on superficial comparisons and practical approaches rather than constructing a comprehensive doctrine.

Goldscheid's mind-expanding study provides a fresh interpretation of the historical evolution of the tax state. In Goldscheid's terminology, the critical

moment in the evolution of states lies in the transition from the rich state to the poor state. The term “the rich state” characterizes a state that owns large possessions, ranging from primitive societies to the Middle Ages. In contrast, the “poor state” represents a type of state that undergoes a gradual loss of its properties. Goldscheid’s analysis shows that there is a gradual movement toward the “expropriation of the state” by bourgeois classes.

In a broader context, Goldscheid scrutinizes the culpability of advanced capitalism and its historical phases in the genesis of the impoverished state, thereby unraveling the intricate fabric of fiscal exploitation. Goldscheid (1958, p. 204–205) characterizes this transformation as “a transition phase when ruling classes’ best interests began to be served by a poor rather than a rich state;” he further maintains that “the rising bourgeois classes wanted a poor state, a state depending for its revenue on their good graces, because these classes knew their own power to depend upon what the state did or did not have money for.” Ultimately, Goldscheid (1958, p. 205) discovers two equidirectional tendencies that lead to dispossession of the state: “on the one hand the princes’ reckless borrowing and heedless disposal of state land and domains, and their incapacity to administer public property or conduct the economy; on the other hand, the interest of the new creditors of the state in exploiting the state more and more.” The inexorable outcome of this process is that “exploitation by the state ended up in exploitation of the tax state.”

In response to Goldscheid’s call for a theory of public finance rooted in sociological foundations, often referred to as “fiscal sociology,” Schumpeter made a significant contribution to this emerging field in his article “The Crisis of the Tax State” (*Die Krise der Steuerstaates* in original). Essentially, Schumpeter highlights that “[t]he fiscal history of a nation is above all an essential part of its general history” (Schumpeter, 1991 [1918]). In a parallel line with Goldscheid, Schumpeter adopts a fiscalist position, which states that one can grasp the nature, structures, and destiny of states through a fiscal lens.

Schumpeter’s view posits taxes – and fiscal affairs more broadly – as a vital element in the formation of the tax state: “Fiscal demands are the first sign of life

of the modern state" (Schumpeter, 1991 [1918]). In addition to symbolizing the birth of the modern state, fiscal demands are also vital for the postpartum process:

Taxes not only helped to create the state. They helped to form it. The tax system was the organ the development of which entailed the other organs. ... The kind and level of taxes are determined by the social structure, but once taxes exist they become a handle, as it were, which social powers can grip in order to change the structure (Schumpeter, 1991 [1918], p. 17).

One crucial point to consider when seeking to place taxes and fiscal matters into the core of an analysis is confronted with a world that exhibits substantial contradictions. For example, Goldscheid's (1958) insightful analysis reveals how capitalist classes deftly manipulate the state to enhance their profits and extend their power by following the commandments of finance capital. This strategic maneuvering grants them a dominant role within the state apparatus, colloquially termed "the state within the state." Nonetheless, Schumpeter's pessimistic interpretation of the tax state crisis diverges from Goldscheid's perspective. Schumpeter draws our attention to the transformation of the state and the inadequacy of a purely fiscal lens in comprehending its complexities. He posits taxes as a formidable cornerstone in creating modern states. Once the state exists as a reality and as a social institution, its nature undergoes a deeper evolution, transcending a simplistic fiscal standpoint (Schumpeter, 1991 [1918]). However, an inescapable conclusion looms on the horizon:

If the will of the people demands higher and higher public expenditures, if more and more means are used for purposes for which private individuals have not produced them, if more and more power stands behind this will, and if finally all parts of the people are gripped by entirely new ideas about private property and the forms of life—then the tax state will have run its course and society will have to depend on other motive forces for its economy than self-interest. This limit, and with it the crisis which the tax state could not survive, can certainly be reached. Without doubt, the tax state can collapse (Schumpeter, 1991 [1918], p.112).

Taking the contribution of Goldscheid and Schumpeter as a major factor for the analysis we wish to develop throughout this paper, we can now focus on Wolfgang Streeck's attempt to conceptualize the tax state within a broader and

holistic framework. Two primary reasons underlie this focus. First, Streeck (2014) seamlessly integrates Schumpeter's and Goldscheid's ideas on fiscal matters, placing them within the historical context of neoliberalism. Second, Streeck directly takes the term "the tax state" as a principal founding block in his book *Buying Time: The Delayed Crisis of Democratic Capitalism*, emphasizing the transformation of the tax state into a debt state, which he describes as "a state which covers a large, possibly rising, part of its expenditure through borrowing rather than taxation, thereby accumulating a debt mountain that it has to finance with an ever greater share of its revenue" (Streeck, 2014, p. 71). In conclusion, Streeck brings the analysis to critical grounds and offers an interdisciplinary vision to chew on with a powerful emphasis on the dynamics of capitalism.

Streeck's insights stand as a significant milestone, astutely illustrating the dilemma of the tax state, by equating it with the democratic state financed by its citizens. Likewise, he sheds light on the paradigm shift in public finance, ushering in the era of "public choice" amid the neoliberal counter-revolution. This historical transformation replaces public finance with public choice, unveiling two distinct constituencies on the societal stage: citizens and creditors, the *Staatsvolk* of the tax state and the *Marktvolk* of the debt state. In this new era, the contributions of citizens bear limited weight, while the confidence of creditors assumes a pivotal role in reshaping the democratic state under the sway of "finance capital." Consequently, the public character of rights and the state itself gradually dissipate.

The central argument of Streeck's analysis regarding the transformation of the tax state into the debt state can be summarized as follows: "The development of the debt state may be understood both as a retarding factor in the crisis of the tax state and as the rise of a new political formation with its own laws" (Streeck, 2014, p. 71). However, the rise of a new political formation has destructive consequences: "The limitation of national sovereignty by 'market forces' amounts to a limitation of the freedom of the *Staatsvolk* to make democratic decisions and a corresponding empowerment of the *Marktvolk*, which becomes increasingly essential for financing government decisions" (Streeck, 2014, p. 78). Streeck's analysis serves as a foundational point in interdisciplinary fiscal studies, advocating

for a comprehensive perspective on taxes and fiscal affairs by embedding these concepts within a broader political and social contexts. Relying on Streeck's arguments, "the fiscal" transcends its economic confines, emerging as a multifaceted issue that encompasses various elements at its core, such as capitalism, democracy, capital, and ideology.

Before proceeding to the next section, we can now turn to an appraisal of the text:

- i.** Taxes are both the backbone and lifeblood of the modern state, encapsulating not only a historical continuum but also an enduring and self-perpetuating reality. This affirmation, echoing Schumpeter's insights, asserts that taxes have not merely been instrumental in the state's inception but have been paramount in shaping its very essence. In broader terms, taxes are intricately intertwined with the idea of the state. As Schumpeter presciently indicates, "[t]axes has so much to do with 'state' that the expression 'tax state' might almost be considered a pleonasm. For this reason, fiscal sociology is so fruitful for the theory of the state" (Schumpeter, 1991 [1918]).
- ii.** Taxes are not only a crucial step in creating and forming the modern state, but they also reflect "the nature of a society, of its political structure as well as its spirit" (Yun-Casalilla, 2012) because they are so central to everyday life. In this respect, fiscal affairs and intricate relationships stemming from these interactions, particularly in day-to-day existence, should be meticulously examined from various interdisciplinary perspectives.
- iii.** Undoubtedly, fiscal affairs extend beyond the confines of mere "physical force," as stipulated by Weber. In this regard, a productive research agenda lies ahead, inviting us to examine fiscal relations as a compelling subject of scientific inquiry.
- iv.** Schumpeter's recognition of the richness of fiscal sociology as a research field opens the door to pondering over social and political projects grounded in fiscal relations without falling into the trap of economic

determinism. Since taxes are “deeply implicated in the structure of the state and its encompassing political system,” as Bob Jessop aptly elucidates , any moment of crisis in public finances presents an opportunity to break the capitalist chain and carve a path toward alternative futures.

#### **4. Not Set in Stone: Alternative Interpretations of Tax Phenomenon**

With the history of the tax odyssey in mind, scholars, to a considerable degree, have attempted to understand taxes within the strict boundaries of economics. Nevertheless, this study has hitherto tried to understand taxes in many ways, such as the driving force of the fate of societies, a symptom and cause of decade-defining events, and a crucial element of the revolutions. Mann (1943, p. 225) succinctly captures this shift in his statement: “Taxation has gradually moved from the sphere of public finance into the sphere of sociology.”

As previously noted, the discipline of public finance often treats taxation as a matter of technical training and oversimplifies its essence, reducing it to the cost of doing business or a burden that hampers efficiency. The famous phrase attributed to Jean-Baptiste Colbert, a French statesman and strong advocate of mercantilism, “plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing” provides a very suitable framework to explain the fallacy of mainstream tendency in public finance literature. However, as clearly argued by Boden et al. (2010, p. 541), “tax matters” because “[i]t touches the lives of every citizen and economic entity, sometimes in ways we do not fully appreciate.”

Reflecting on the Bourdieusian state that molds mental structures and modes of thinking (Bourdieu, 1998, p. 46), it becomes evident that our perception of taxes is predominantly shaped by mainstream economics. This imposition compels us to adhere to notions of “rationality”, “reason”, and “purported scientificity.” However, the dominance of technocratic and positivist approaches, deeply rooted in the hegemony of neoclassical economics, impedes further discussions and hinders intellectual critiques aimed at transcending conventional



borders. Therefore, Boden et al. (2010) call for a new critical social science perspective that conceives taxes as an institutional, social, political, ideological, and cultural phenomenon. The critical eye should; thus, "raise important questions around its power effects in society more widely, yet these remain concealed behind a technical facade" (Boden et al., 2010, p. 541).

Given the surprisingly limited recognition and narrow theorization of the concept, debates concerning the inadequacy of mainstream economics to explain taxes remain dormant until a new theoretical framework that benefits from a wide range of social sciences emerges. Focusing exclusively on specific aspects of taxes, particularly emphasizing their economic role, is no longer sufficient. To that end, one possible approach to challenge the mainstream economic understanding of tax phenomenon is to conceptualize taxes as "a social contract between governments and citizens" (Martin et al., 2009, p. 14). In essence, taxation should be viewed as a social contract that is negotiated between the state and society, lying at the heart of civic identity formation and the circle of "we," as well as the state formation. Envisaging taxes as a social contract between ruler and subject, or state and taxpayer, unveils the following argument: Taxation is a conflict area at the very core of capitalism and democracy. The scope and significance of the term are now intricately entwined with the fundamental principles of capitalism and democracy.

An insightful perspective on taxes unveils when considering its revolutionary or transformative character. In his inspirational study *Path Towards the Modern Fiscal State*, He (2013) asserts that fiscal difficulties play a pivotal role in state formation. Comprehending taxes as an institution, the author establishes a link between taxation and the start of a new epoch: "As existing institutions became unable to provide the state adequate revenue to maintain domestic order and handle threats from abroad, big events took place: the 1642 English Civil Wars, the Meiji Restoration in 1868, and the Taiping Rebellion in 1851." While it is difficult to explain historical events through a singular causal relationship, the underlying message remains clear: "In each case, state actors were all overwhelmingly concerned with how to overcome the fiscal crisis" (He, 2013, p.

181). Although He's analysis delves into the transformative aspects of taxes across three countries (England, Japan, and China), we can extend this examination further. Mathew Forstater, a prominent heterodox economist, posits that Marx himself embraced the idea that the tax system could potentially turn workers into proletarians by establishing "money" as a unique payment tool; thus, radically converting tax payments (Forstater, 2005, p. 56). The principal mechanism is aptly illustrated through Forstater's observation regarding African countries:

Direct taxation was used to force Africans to work as wage laborers, ... and to monetize the African economies. ... If Africans were working as wage laborers or growing cash crops instead of producing their own subsistence, they would be forced to purchase their means of subsistence, and that increasingly meant purchasing European goods, providing European capital with additional markets. It thus also promoted, in various ways, marketization and commoditization (Forstater, 2005, p. 63).

The long but necessary quote above underscores the potential of Marxist concepts, such as "primitive accumulation," to enhance discussions on taxes and open up new horizons. Engaging with Marxist literature also reveals a new dimension of taxes: their ideological characters. Unlike Marxist theory, it is also important to note that ideology is portrayed quite differently in various schools of economic thought, as seen in Public Choice. In his famous book *The Ideologies of Taxation*, Eisenstein (1961, p. 3–4) positions the concept of self-interest at the core of his analysis and points out that "[o]ur taxes reflect a continuing struggle among contending interests for the privilege of paying the least." In general terms, this mirrors the liberal assertion that everyone seeks to maximize their benefits while minimizing costs. To that end, people with common economic concerns unite to create groups and attempt to influence the political sphere to design tax systems that align with their "fiscal aspirations." Ideology enters the picture when one group's fiscal objectives are framed as the "needs of all." However, this essentially represents the ideology of that particular interest group and serves their fiscal aspirations, rather than addressing the collective needs of society as a whole. In his review of Eisenstein's book, Sneed (1961, p. 194) explicitly underscores this point: "Ideologies of taxation serve the practical needs of those who hold them."

Conversely, critical literature presents various perspectives on ideology. Harvey (2017, p. 16) vividly paints the picture as “an ideological fight over the benefits or disadvantages of state interventions in the circulation of capital” and underlines the importance of “class powers.” In its broadest meaning, it is almost undebatable that tax issues fundamentally revolve around “class issues” (Passant, 2016, p. 21). Charles Tilly, a pioneering historical sociologist, follows a similar logic on the critical dimension of taxes and links the issue with “capital concentration” and “proletarianization”: “The concentration of capital, plus the direct effects of taxation, accelerated the growth of the proletariat at the same time as it helped transform a small portion of the peasantry into capitalist farmers” (Tilly, 1980, p. 4).

To provide further clarity and delve deeper into this narrative, the story of Bolivia’s attempt to accomplish fiscal engagement of the indigenous population is noteworthy. Indigenous groups in Bolivia, who have long struggled for their existence and have historically been exempt from taxation, became the focal point of state formation under President Evo Morales’s leadership. The president aimed to bring these historically exploited and marginalized indigenous communities into the heart of the state formation:

Through the introduction of universal benefits, simplified tax rules, and campaigns depicting tax as a moral good, the government now hopes to encourage Bolivia’s indigenous poor to enter into a social contract with the state and in so doing become fully fledged citizens. While many indigenous groups welcome the promise of inclusion, the state’s call to its people to fulfill their tax obligations echoes through a complex moral landscape (Sheild Johansson, 2018, p. 85).

The passage above presents a crucial argument: taxes matter more than we could ever imagine. In the Bolivian experience, akin to various historical movements, creating a social contract between the ruler and the subject on the basis of trust is essential. This process involves the creation of a fresh model of “fiscal citizenship/engagement,” and it unfolds within the framework of taxation. This experience not only validates our assertions but also opens new doors to confidently advance and explore further.

Before proceeding, we must ensure that we have fully explained to the reader the diverse range of issues under consideration. For example, when the term “tax” is mentioned, those adhering to Marxist perspectives instinctively delve into the realm of class conflict, often citing Marx and Engels (2004 [1848]) who asserted that “[t]he history of all hitherto existing society is the history of class struggles”. For them, world-shaking events throughout history, such as the Magna Carta in 1215, the Peasant’s Revolt of 1381, and the English Revolution from 1640 to 1649, as well as tax rebellions and revolts, were driven by “ordinary people,” not by “ruling class” (Passant, 2016, p. 68).

Furthermore, Marshall Berman (1999, p. 13) underscores the proclivity of Marxist historians to ascribe pivotal historical events to the concept of “the rich human being” (*der reiche Mensch*), who underwent brutalization and alienation. This dialectical imagination plays a crucial role, revealing that even in a state of alienation, human beings harbor the latent capacity to metamorphose into revolutionary figures: “The very social system that tortures them also teaches and transforms them, so that while they suffer, they also begin to overflow with energy and ideas. Bourgeois society treats its workers as objects, yet develops their subjectivity” (Berman, 1999, p. 14).

Nonetheless, a proponent of the neoliberal counter-revolution that unfolded in the 1980s espouses a viewpoint starkly divergent from Marxist theorists. While the individual still occupies a central position in the analysis, their approach fundamentally deviates. This perspective contends that slashing tax rates for corporations or billionaires does not inherently pose a problem; in fact it asserts that reducing taxes enhances efficiency. As an extreme example, we can consider the case of Donald Trump, the former president of the United States. During the first presidential debate of 2016, the Democratic Party’s nominee, Hillary Clinton, accused him of not paying taxes. Here, is Trump’s answer, word-for-word: “That makes me smart.”<sup>4</sup> Trump’s reaction describes the conservative revolution of the

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<sup>4</sup> The full version of the conversation related to the debate between the two candidates was as follows:  
Hillary Clinton: “The only years that anybody’s ever seen were a couple of years when he had to turn them over to state authorities when he was trying to get a casino license, and they showed he did not pay any federal income tax.”

1980s. Prasad (2018), in *Starving the Beast: Ronald Reagan and the Tax Cut Revolution*, examines Reagan's "Economic Recovery Tax Act of 1981" in detail and illustrates the transformation of the Republican Party into a political party advocating for tax cuts and representing the interests of the super-rich. Strikingly, this phenomenon, often referred to as "the rich people's movement" (Martin, 2013), is also a revolution rooted in class issues and significantly diverges from the Marxist ideology.

What we intend to underline here is the nearly identical use of terminology when discussing two opposing approaches in a political pendulum— a swing from the extreme left to the extreme right. However, our concluding remarks are fundamentally different. Starting from identical assumptions and using similar terminology, we are in such a strange position where leftists see the seeds of a possible revolution with the transformation of alienated man into a rich human being, hence the destruction of capitalism, and where a conservative or liberal strictly stands against collective ideas by dignifying the virtues of privatization. Such examples could be endlessly multiplied. For instance, Marx himself argues that "[t]he refusal to pay taxes was a means of society's self-defense against a government which threatened its foundations" (Marx, 1994 [1849]), whereas the post-Keynesian school emphasizes the virtues of government intervention through taxation for a just society (Tcherneva, 2014). While both approaches can be classified as "heterodox," their conclusions are varied. Nonetheless, a vigorous advocate of liberalism reminds us of the well-known slogan at this very moment: "Taxation is theft because governments take money from us without our consent" (McGee, 2003).

When we set out to hunt for different interpretations, rejecting the mainstream vision of taxes reveals a multitude of explanations. It is at this juncture that we find Martin, Mehrotra, and Prasad's ambitious assertion particularly relevant: "Nearly every issue with which they are concerned runs through the issue of taxation" (Martin et al., 2009). Up to this point, our efforts have been dedicated to challenging

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Donald Trump: "That makes me smart."

For further details, see <https://www.cnn.com/2016/09/26/trump-brags-about-not-paying-taxes-that-makes-me-smart.html> [date accessed: November 16, 2021].

conventional wisdom by transcending pure economism and emphasizing that fiscal affairs possess a significance far greater than we imagined. As we transition to the conclusion, we posit that encapsulating our key arguments within a framework of “five theses” provides a concise means to reshape our understanding of taxes.

## **5. Concluding Remarks as “Five Theses” on Reimagining Taxes**

In recognition of the numerous issues that require further exploration whenever the subject of “tax” is introduced, the concluding section of this paper is structured around five theses. It is our aspiration that these “naïve” principles will stimulate in-depth discussions among those currently engaged in tax-related research and prospective scholars venturing into this field.

### ***Thesis I: Taxes can be conceived in relational terms.***

Taxation is a conflict area concerning the relations it creates, primarily between the ruler and the ruled, or more simply, the state and the taxpayer. Evidently, taxes plays a fundamental role in the genesis of the modern state throughout history, serving the backbone of the modern welfare state. While states establish and protect social order, taxation emerges as the most important element in this process. However, the dynamic between taxpayers and the state does not explain the whole story. Since taxes shape broader social and political relations, it is imperative to expand the context of these relations as comprehensively as possible. This involves examining state-society dynamics, interactions among individuals within society, as well as the relationships between individuals and collective movements. The underlying reason taxes are considered a conflict area lies in the ongoing and rarely resolved nature of fiscal relationships. As articulated by Björklund Larsen (2018, p. 7), taxes can be viewed as “a citizen’s explicit economic relation to the state and implicit relation to all other citizens.” Consequently, every citizen will always question who pays more and benefits less, or who pays less but benefits more.

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***Thesis II: Taxes are not only a foundational principle for making the state but also for transforming the society.***

Taxation plays a pivotal role in the formation of states, serving not only as a means to extract revenue from citizens, but also as a potent force in shaping the very character of modern states. The introduction of a progressive tax scheme, heavy inheritance taxes, and taxes on capital and wealth hold the power to fundamentally change the political structure of a state. This argument extends to the potential for instigating significant social change.

To illustrate the aforementioned point, let us consider the case of the United Kingdom, where political parties are often regarded as representative voices of various social groups. A thorough examination of The Labour Party's 2017 Manifesto reveals the party's commitment to establishing "a fair taxation system that is crucial to creating an economy that works for all." In furtherance of this goal, the Labour Party proposes to "ask large corporations to pay a little more." In stark contrast, the Tories affirm that they will "always be whole-heartedly on the side of business." Succinctly put, taxation can pave the path toward a more egalitarian society, one that prioritizes the interests of "the people over the rich or the interests" (Martin et al., 2009, p. 8).

However, as Piketty (2014, p. 493) astutely observes, "[t]he major twentieth century innovation in taxation, the progressive income tax, played a key role in the reduction of inequality." However, it is worth noting that contemporary taxes have the potential to exacerbate wealth concentration among ever fewer hands, in stark contrast to the objective of creating a just society. In summary, our thesis holds: Taxation is a crucial institution that transforms not only the state but also society.

***Thesis III: Taxes provide a fecund ground for constructing alternative futures.***

Broadening the horizons beyond conventional limits poses a formidable challenge, primarily stemming from the inherent complexities in the definition of

taxes. The concept of levying taxes on individuals entails an implicit commitment by governments to deploy the collected revenue for the provision of public goods (Webber and Wildavsky, 1986). The funds derived from citizens through taxation do not arise from the realm of free will; rather, they result from coercive action. Consequently, taxes cannot be conceived as a fee paid in direct exchange for a service. However, we can question assumptions and assertions that are often accepted without scrutiny. David Graeber, a famous anthropologist, and anarchist activist, is quite assertive when he states that “[n]arrative also defines our sense of political possibility.” Therefore, to challenge conventional wisdom and shift the discourse, we must maintain a healthy degree of skepticism toward widely accepted definitions. At this juncture, Graeber and Wengrow’s observation of human history provides a fertile ground for envisaging alternatives:

Modern authors tend to write as if 95% of our species’ history, human societies were all much the same. But even 40,000 years is a very, very long period of time. It seems inherently likely, and the evidence confirms, that those same pioneering humans who colonized much of the planet also experimented with an enormous variety of social arrangements (Graeber and Wengrow, 2018, p. 14).

Graeber and Wengrow’s emphasis on “an enormous variety of social arrangements” serves as an eloquent articulation of the argument that human history cannot be reduced to the capitalist epoch and its institutional components. While Fukuyama’s provocative claim, depicting capitalism as a destiny, continues to loom large in debates regarding the future of capitalism, there is no compelling reason to presuppose capitalism’s perpetual endurance. Capitalism, unquestionably, is destined to change, and so too are its mechanisms. Moreover, capitalism and the social, economic, and political transformations it triggered are susceptible to eventual transformation and even dissolution, demonstrating the feasibility of departing from capitalist structures. Bearing these considerations in mind, restructuring or reimagining taxes as something different from what it is now will help us to throw off our theoretical shackles and enable us to generate fruitful discussions about new forms that await us in the future. The intellectual justification for this assertion is lucid: “Alternatives can indeed be created, and not just come about” (Graeber, 2001).



***Thesis IV: A holistic approach to taxes stands against the mainstream tax narrative and paves the way for alternative interpretations.***

Any totalizing attempt to explain social or individual phenomena is doomed to failure. Although this argument may seem assertive and absolute, its connection with this study can be readily constructed. Bronislaw K. Malinowski (1884–1942), one of the most influential anthropologists who conducted an eye-opening ethnographic study in the Trobriand Islands, strengthens our claim about the inability of totalizing attempts in social sciences. In economics and public finance theory, the concept of the self-interested individual, marked by a universal inclination to maximize gains while minimizing sacrifices, stands as a foundational pillar. However, Malinowski (2005 [1922]) challenges the conception of the economic man, deeming it a “fanciful and dummy creature,” and underscores the imperative to debunk the creature in his text. According to Malinowski, the image of a rational self-interested economic agent is “preposterous”:

The primitive Trobriander furnishes us with such an instance, contradicting this fallacious theory. He works prompted by motives of a highly complex, social and traditional nature, and toward aims which are certainly not directed toward the satisfaction of present wants, or to the direct achievement of utilitarian purposes. Thus, ... work is not carried out on the principle of the least effort. On the contrary, much time and energy is spent on wholly unnecessary effort, that is, from a utilitarian point of view. Again, work and effort, instead of being merely a means to an end, are, in a way, an end in themselves (Malinowski, 2005 [1922], p. 46).

In this extensive passage, Malinowski redefines the human figure by dismantling the rational human construct. Malinowski’s primitive Trobriander is not enslaved by economic interests. They do not seek to maximize their benefit with the least effort. From a utilitarian perspective, almost all of their actions may appear unfamiliar and irrational to us. The Trobriander does not exhibit any similarity to “the theoretical construct that posits calculated self-interest as the primary human motive in all transactions” (Urbina and Ruiz-Villaverde, 2019, p. 63).

By highlighting the failure of any totalizing attempt to explain social or individual phenomena, we seek to assert that no individual can be pigeonholed

as homo oeconomicus. In essence, each individual is inherently unique in their own setting. Hence, the study posits that the taxpayer, far from embodying a prototype of a rational individual seamlessly adhering to rules by paying taxes, exhibits a diversity that defies such categorization. In simpler terms, the notion of universally “reasonable” and “submissive” citizens does not hold true. Taking this assertion a step further, it becomes apparent that expecting identical behavior from a taxpayer in Turkey and one in Iceland would be unreasonable. Numerous factors, including culture, moral issues, values, history, and institutions, wield a substantial influence over our decisions and way of life. Therefore, the emblematic figures of capitalist society cannot provide a basis for comprehending the diversity inherent in human society:

If we do not know that the Tiv traditionally could not buy and sell land, and that they have customarily not used money as a means of payment, it will plainly be impossible to understand how they themselves interpret their situation and how they responded to the economic changes imposed on their society during colonialism (Eriksen, 2001, p. 1).

A mindset steeped in capitalist ideas, fervently embracing the principles of capitalism and markets, may dismiss the traditional economic system and noneconomizing logic of the Tiv people as meaningless, perhaps even amusing. However, “[s]ocieties are constituted by different value spheres, each of which forms its own logic of behavior” (Luhmann, 1997, as cited in Adloff, 2021). Factors, such as moral codes, culture, religion, ideology, power relations, customs, gender issues, and kinship, all exert a profound influence in shaping the structural dynamics of an economic system, the governance of a state, and even the organization of any society. For this very reason, a holistic view that covers similarities and dissimilarities between social systems and human relationships is the essential underlying structure of the theoretical framework we attempt to establish.

***Thesis V: The transformative nature of taxes creates opportunities for alternative social structures that extend beyond the confines of capitalism.***

The fundamental premise of this study posits that taxes can undergo a transformative reimagination, extending beyond their conventional definitions.

Analogous to the arguments advanced in “Thesis I,” which emphasize the relational nature of taxes, and “Thesis III,” which underlines the necessity of restructuring taxes to engender novel forms and foster productive discussions, we propose a conceptualization of taxes within the framework of “temporality.” The arguments pertaining to the deep impact of taxes on shaping state and society formation remain pertinent. However, as eloquently conveyed by Bauman (2017), “[t]he world here and now is but one of the undefinable number of possible worlds past, present, and future.” In simpler terms, the future holds the potential for restructuring through the invention of a new vocabulary, contingent upon “our” collective choices.

At this point, it is pertinent to heed the plea articulated by the authors of the book *Degrowth*: “When the ordinary language in use is inadequate to articulate what begs to be articulated, then it is time for a new vocabulary” (D’Alisa et al., 2014). For this reason, in defiance of the famous phrase, “there is no alternative,” (often abbreviated as “TINA”) and asserting that “alternatives have always existed and will go on to exist,” we immerse ourselves in Bertell Ollman’s words, in which he provocatively challenges us with the query, “The question is not when will capitalism die, but when did it die, and what should our reaction be?” (Ollman, 1999). This question should now take center stage in our ongoing discussions, becoming the focal point for further contemplation. In doing so, a multitude of alternatives will take shape, and new systems will emerge in various forms. The primary challenge lies in engaging in a discourse that delves into both theoretical and contextual considerations regarding the future. A vast spectrum of possibilities lies before us, ranging from the emergence of entirely new social arrangements to the revitalization of old social structures in new forms, akin to a “phoenix rising from the ashes.”

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**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The authors have no conflict of interest to declare.

**Grant Support:** The authors declared that this study has received no financial support.

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RESEARCH ARTICLE

## Effects of the EU's CBAM on Eurasian Countries

Sergei SUDAKOV<sup>1</sup> 

### ABSTRACT

Starting from 2026, imports of certain goods to the EU will be subject to a special fee that is based on the carbon content of the imported products. Consequently, the EU's trade partners have tried to predict the possible risks of such a change in the European trade policies. Given this, the article focuses on the analysis of the impact of the EU's Carbon Border Adjustment Mechanism (CBAM) on different countries. In particular, the current research aims to assess CBAM payments for imports of products from Eurasian countries to the EU. Despite current trends in the EU's trade policy, the largest CBAM payment is estimated to be for Russia. Analysis shows that the highest share of CBAM payments in exports to the EU is estimated to be for Uzbekistan, Georgia, Tajikistan and Belarus. The biggest share of CBAM payments falls on imports of metals, fertilisers, electricity and oil. However, these results should be treated with caution since some Eurasian countries are missing high quality data on the carbon intensity of the produced goods. In this light Eurasian countries should adopt a transparent system for collecting and publishing detailed information on the embedded emissions of different products. Adoption of CBAM by the EU may lead to the implementation of the analogous mechanisms by trade partners of the Eurasian region. Therefore, the decrease of carbon intensity of products and "green" transition should be among the top priorities of the industrial and economic policies of these countries.

**Keywords:** Carbon border adjustment, Trade policy, Climate policy, Export, Sanctions, CBAM, EAEU

**JEL Classification:** F13, H23



DOI: 10.26650/ISTJECON2023-1226280

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**Submitted:** 29.12.2022

**Accepted:** 23.05.2023

**Citation:** Sudakov, S. (2023). Effects of the EU's CBAM on Eurasian countries. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 675-696.

<https://doi.org/10.26650/ISTJECON2023-1226280>



## 1. Introduction

The European Union (EU) Carbon Border Adjustment Mechanism (CBAM) is a new trade policy tool aimed at battling climate change through imposition of a "climate import duty": this mechanism is to be applied in relation to imports of certain goods based on their carbon content. This policy is intended to address the challenge of carbon leakage, where emissions are shifted from countries with strong climate policies to those with weaker policies, and to level the playing field for European businesses. The CBAM will have implications for the EU's trade partners and their ability to trade with the EU. The introduction of the CBAM marks a significant step in the EU's efforts to tackle climate change and create a greener future for all.

The key features of the EU's CBAM mechanism are being discussed by the European Commission (EC), European Parliament (EP), and the Council of the EU. As such, the EC was the first one to introduce draft CBAM parameters in July 2021. In accordance to these parameters, the EC originally planned to launch the CBAM from the beginning of 2023 as a reporting mechanism, further requiring importers to purchase CBAM certificates from 2026 (1 certificate = 1 tonne of CO<sub>2</sub>e emissions associated with the production of goods). The EC proposed to link the price of CBAM certificates to the price of emission allowances (EUA) at the EU Emissions Trading System (EU ETS). The EC suggested applying the CBAM in relation to imports of cement, electricity, fertilizers, iron, steel, and aluminum (249 HS-6 codes). The EC mentioned that CBAM payments should be calculated on the basis of direct emissions from the production of goods covered by this mechanism and direct emissions from the production of input materials used in goods covered by the CBAM. It was also clearly mentioned (by the EC and other EU institutions) that the CBAM will be acting as a replacement of free allocation at the EU ETS and therefore during 2026 – 2035 CBAM payments will be decreased to reflect free allocation in sectors that are to be covered by this mechanism (it is planned that starting from 2035 there will be no free allocation in the EU ETS). The three parties mentioned above agree on certain basic characteristics of the proposed mechanism like the price of CBAM certificates. However, until the end



of December 2022, parties had different views on certain aspects of the CBAM like products and emissions covered by the mechanism. Nevertheless, on the 13<sup>th</sup> of December 2022, the EP and the Council of the EU reached a provisional agreement on the CBAM. The CBAM characteristics mentioned in this agreement represent a trade-off between the views participants of trilogue (see table below). It should be noted that according to the provisional agreement, the CBAM is to be implemented from October 2023 (as a reporting mechanism and from 2026 as a fee for imports), that is a later date compared to the original EC proposal.

**Table 1: Possible EU CBAM parameters**

	<b>EC proposal (July 2021)</b>	<b>EP proposal (June 2022)</b>	<b>Council of the EU proposal (June 2022)</b>	<b>Provisional agreement (December 2022)</b>
Implementation period	Transition period: 2023 – 2025 (3 years)  Payment obligations: from 2026	Transition period: 2023 – 2024 (2 years)  Payment obligations: from 2025	Analogous to EC's position: Transition period: 2023 – 2025 (3 years)  Payment obligations: from 2026	Transition period: 1 October 2023 – 2025 (ca. 2 years)  Payment obligations: from 2026
Emission scope	Scope 1 and 3 (direct emissions including from input materials)	Scope 1, 2 and 3 (direct and indirect emissions)	Scope 1 and 3 (direct emissions including from input materials). Indirect emissions Scope 2 within the boundaries of the installation producing the good are defined as direct emissions	Depending on product. All emission scopes are mentioned
Goods covered	Cement, electricity, fertilisers, iron and steel, aluminium.  249 HS-6 codes	Cement, electricity, fertilisers, iron and steel, aluminium, and organic chemicals, hydrogen, polymers (plastics and products thereof).  764 HS-6 codes	Slight extension of EC proposal. CBAM payment is not imposed in case of consignment value of 150 Euro or less.  265 HS-6 codes	Applies to import consignments above 150 Euro.  Cement, electricity, fertilisers, iron and steel, aluminium and hydrogen  285 HS-6 codes

**Table 1: Possible EU CBAM parameters**

	<b>EC proposal (July 2021)</b>	<b>EP proposal (June 2022)</b>	<b>Council of the EU proposal (June 2022)</b>	<b>Provisional agreement (December 2022)</b>
CBAM factor (free allocation phase out)	Is equal to 100% in 2025. Evenly decreased by 10 p.p. during 2026 – 2035	Equals 100% in 2024. 0 for cement starting from 2025. For other goods it is equal to 90% in 2025, 70% in 2026, 40% in 2027 and 0% by the end of 2028	Is equal to 100% in 2025. Annual decrease by 5 p.p. during 2026 – 2028. Annual decrease by 7.5 p.p. during 2029 – 2030. Annual decrease by 10 p.p. during 2031 – 2032. Annual decrease by 15 p.p. during 2033 – 2034. 20 p.p. decrease in 2035 (in order to reach 0% by 2035)	2026 (97,5%) – 2034 (details are mentioned in the provisional agreement on the EU ETS)
Governance	Each MS has a responsible body (administration)	Single EU-wide body	As EC proposal except for centralized registry of authorized declarants and common platform for trade in CBAM certificates	Each MS has a responsible body (administration). CBAM certificates are sold on the common platform developed and administered by EC
Fines for violation	100 Euro per non-surrendered certificate	Three times the average price of CBAM certificates in the previous year (year of imports) for each CBAM certificate that the authorized declarant did not surrender	As in EC proposal: 100 Euro per non-surrendered certificate	100 Euro per non-surrendered certificate
Revenue use	–	Cover the costs of operation of single EU-wide CBAM body, financial support of the least developed countries (support in achieving climate targets)	–	–

**Table 1: Possible EU CBAM parameters**

	<b>EC proposal (July 2021)</b>	<b>EP proposal (June 2022)</b>	<b>Council of the EU proposal (June 2022)</b>	<b>Provisional agreement (December 2022)</b>
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**Source:** Compiled by author on the basis of information from EC (European Commission, 2021), EP (European Parliament, 2022), Council of the EU (Council of the EU, 2022), CBAM provisional agreement (Council of the European Union, 2023).

As seen from the proposed CBAM parameters this mechanism can be thought of as a trade measure. The EU's CBAM is unique in part that no country or integration association has introduced such measure before. As a result, a lot of countries are trying to analyze the consequences of implementation of this mechanism. The current research paper is devoted to the assessment of CBAM payments for Eurasian Economic Union (EAEU) member states (Armenia, Belarus, Kazakhstan, Kyrgyz Republic, Russia), Georgia, Tajikistan and Uzbekistan. These countries were chosen due to the fact that the EU holds (data as of 2019 – 2021) a sizeable share in exports from these countries. The prominent feature of this study is that it takes into account contemporary changes in the trade policy of different countries, namely the adoption of European sanctions against Belarus and Russia. The remainder of this paper is organized as follows. In Section 2 a brief analysis of literature on the topic of regulation of greenhouse gas emissions (including trade policy measures) and its effects on different economic parameters is presented. Section 3 is devoted to the description of the data and methodology used in the current analysis. Section 4 provides CBAM payment estimates for imports from the Eurasian region countries and Section 5 concludes.

## **2. Literature review**

Reducing greenhouse gas (GHG) emissions can be achieved through the use of various price and non-price regulatory measures (Haites, 2018). Among these groups of measures, price measures are gaining popularity due to their direct impact on the reduction of greenhouse gas emissions (Krause & Obeiter, 2015). Price measures also lead to an increase in budget revenues, which can be used for various purposes, including those aimed at battling climate change (for example, investment in new green technologies) (Kennedy, Obeiter, & Kaufman, 2015).

Carbon pricing can take one of the two forms: a carbon tax (the maximum amount of GHG emissions is not limited; the tax rate is legally fixed) or an ETS (there is a legally defined limit on GHG emissions; the price of emission allowances is determined by market). According to world Bank data (World Bank, 2022a), from 2005 to 2022, the total number of applied carbon pricing initiatives increased from 9 to 66. This increase also led to an increase in the share of global GHG emissions subject to the pricing measures: the share increased from 5% to 23% from 2005 to 2022. Carbon taxes and ETS are equally popular: out of 66 carbon pricing measures in force, 32 take the form of ETS. However, ETS cover the majority of GHG emissions: 34 carbon taxes cover about 6% of global GHG emissions, while 32 ETS cover about 17% of global GHG emissions (World Bank, 2022a).

Domestic carbon pricing leads to additional costs for domestic firms. Due to the fact that potential foreign competitors may not face the same climate costs domestic firms may start to lose competition on the domestic and export markets. Therefore, in order to avoid this competition bias domestic firms may decide to produce their goods abroad, where they will face zero (or smaller) climate costs. This situation is known as "carbon leakage". Domestic carbon pricing will lead to a decrease in the domestic emissions. However on a global scale, due to the "carbon leakage", this decrease will be compensated by the increase in GHG emissions abroad (in countries with zero or smaller climate costs) (Condon & Ignaciuk, 2013).

The existence of the effect of "carbon leakage" is a debatable topic. For example, in (Venmans, Ellis, & Nachtigall, 2019) it is noted that many studies come to the conclusion that carbon pricing does not affect (or only slightly affects) the competitiveness of domestic firms and, consequently, does not lead to "carbon leakage". However, the authors also point out to the fact that these findings may be the result of carbon pricing exemptions. For example, under EU ETS, authorities provide free allowances to the European participants of this cap-and-trade system. In the absence of such benefits carbon pricing may lead to a significant "carbon leakage" effect. At the same time (Misch & Wingender, 2021) argue that "no carbon leakage" conclusions may be the result of data and methodological limitations of different papers. To support their idea authors use their own

methodology and statistical data and find statistically significant (and robust) relationship between carbon pricing and “carbon leakage”.

“Carbon leakage” can be reduced (or eliminated to a certain extent) by the implementation of Border Carbon Adjustments (BCAs). Under these mechanisms countries with domestic carbon pricing impose a fee based on the carbon intensity of the imported goods. In addition to achieving climate-related goals BCAs help to prevent the decrease of budget revenues of countries implementing domestic carbon pricing initiatives (e.g. by preventing a tax income decrease as a result of production offshoring). In a way, BCAs are a theoretical concept because no country in the world has adopted such a mechanism. As a result, an analysis of the effects of the application of BCAs is sensitive to the underlying assumptions of the research papers devoted to this topic.

In Weitzel, Hübler, & Peterson (2012), the authors list two terms that influence the carbon tariff rate (i.e. the BCA rate): strategic term that influences the terms of trade in the favor of domestic companies (the higher the rate the better off are domestic firms) and environmental term that internalizes negative climate externality tied to the production abroad (the higher the market power and carbon tariff rate imposed by the importing country the bigger is the emission reduction by exporters). Using multi-regional<sup>1</sup> and multi-sectoral<sup>2</sup> Computable General Equilibrium (CGE) model the authors of the paper concluded that BCAs can reduce carbon leakage, but the reduction will be smaller the more grows the BCA rate (diminishing marginal effect). According to the research results, there is a risk that countries that have sizeable market power on international markets will try to manipulate terms of trade when setting the BCA rate (i.e. strategic term dominates over environmental term).

The impact of BCAs on carbon leakage was also assessed in Dong & Whalley (2009). The authors concentrated on the analysis of the effects of BCA adoption

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<sup>1</sup> 9 regions including Russia, US, EU and EFTA countries, China, India, Mexico.

<sup>2</sup> 9 sectors including refined oil products, coal, natural gas, crude oil, electricity, chemical products.

in the US and EU using a two-sector CGE model. The model demonstrated that BCAs help to decrease the carbon leakage effect. At the same time these border instruments tend to have small effects on trade and welfare. The efficiency of BCAs application in terms of their impact on carbon leakage reduction was also demonstrated in Böhringer, Balistreri, & Rutherford (2012). Authors analyzed the results of 12 CGE models that assessed the effects of BCA application in different countries. Researchers reached the conclusion that BCAs are mainly adopted due to an incentive to shift the burden of emission reduction costs to countries with no (or liberal) climate regulations. Similar conclusions were made in Kuik & Hofkes (2010) and Zachmann & McWilliams (2020). These studies also noted that BCAs act as an instrument to support the competitiveness of domestic firms. In other words, strategic term (affecting terms of trade in the favor of domestic firms) is the key incentive for the elaboration and adoption of BCAs.

European lawmakers also highlight the fact that the CBAM is a tool “to level the playing field” between European companies and foreign competitors. The key CBAM feature is that it is the first BCA to be adopted in the world. As a result, EU's trade partners question whether this mechanism corresponds to the international trade rules and WTO norms<sup>3</sup>. In addition, as mentioned earlier, these countries have tried to assess the economic effects of the application of this mechanism. Due to the fact that until recently CBAM parameters were unknown many quantitative research papers devoted to the analysis of the economic effects of the EU's CBAM application are based on the possible CBAM parameters that are slightly different from those that were proposed by the EC, the EP and the Council of the EU. For example, Kuusi, et al. (2020) estimated a gravity model in order to analyze the effects of the CBAM on the imports of goods to the EU. Authors analyzed different possible CBAM parameters<sup>4</sup> and concluded that CBAM will decrease imports to the EU by 2.7% – 4.8% depending on the final CBAM parameters. A sizeable decrease in imports due to the CBAM will be for chemical products, iron and steel products. In a later work, Kaitila, Kuusela, Kuusi,

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<sup>3</sup> Correspondence of EU's CBAM to the WTO rules and norm is not a subject of current research paper.

<sup>4</sup> In a way they correspond to current CBAM proposals. For example, in a basic scenario authors assumed that CBAM will cover imports of cement, aluminium, iron and steel.

Pohjola, & Soimakallio (2022), the authors used the EC CBAM proposal to estimate the effects of this mechanism on imports of goods to Finland. Using a gravity model the authors concluded that imports of goods subject to CBAM from third (non-EU) countries will drop by 25%. In addition to this, using CGE modelling techniques the authors noted that European sectors producing CBAM goods will be the key beneficiaries of the CBAM application. At the same time the CBAM will have no significant effects on other European sectors.

UNCTAD (Durant et al., 2021) also used CGE modelling to assess the effects of CBAM adoption on international trade, GHG emissions, income and employment in different countries. Researchers stated that adoption of the CBAM will decrease global GHG emissions, but the decrease will be small: 0.10% – 0.17% of global GHG emissions (carbon leakage is reduced from 13.3% – 15.1% to 5.2% – 6.9%<sup>5</sup> depending on the analyzed scenario). The CBAM will negatively affect exports from developing countries: a relatively high carbon intensity of supplied goods from developing countries will result in the EU shifting to more efficient “green” sources of supply located in developed countries. Due to this effect, exports of energy goods from Russia will decrease by 4.27% – 7.69% (however European sanctions against Russia are not included in the analysis).

### 3. Data and methodology

The CBAM payment is a dynamic variable that varies on an annual basis due to changes in several factors like the CBAM rate and value (volume) of imports of products to the EU. Overall, the CBAM payment in year  $t$  can be defined as:

$$CBAM_{i,t}^c = ne_{i,t}^c \times \tau_t \times imp_{i,t}^c = (e_i^c - \alpha_t b_i) \times \tau_t \times imp_{i,t}^c \quad (1)$$

where  $CBAM_{i,t}^c$  being the CBAM payment in year  $t$  for imports of product  $i$  from a Eurasian country  $c$  to the EU,  $ne_{i,t}^c$  representing net embedded emissions in product  $i$  of the Eurasian country  $c$  in year  $t$  (that is imported to the EU),  $\tau_t$  being

<sup>5</sup> Is estimated as the change in GHG emissions outside EU to the change in GHG emissions in EU.

CBAM rate in year  $t$ ,  $imp_{i,t}^c$  representing volumes of imports of product  $i$  from the Eurasian country  $c$  to the EU,  $e_i^c$  being embedded emissions of good  $i$  in the Eurasian country  $c$ ,  $\alpha_t$  being the CBAM factor (decrease factor for free allocation) in year  $t$  and  $b_i$  GHG emission benchmark for product  $i$  used in the calculation of the free allocation of allowances in the EU ETS.

County-specific data on embedded emissions of certain goods (CO2e per tonne of good produced) is not always available or published. As a result, the collection of these data can be quite a challenging task. For example, in the case of Russia, data on embedded emissions were taken from private sector reports, academic literature and from inventory of GHG emissions (Roshydromet, 2021). An analogous approach in terms of sources of information on embedded emissions was used in case of other Eurasian countries analyzed.

At the same time in most of the cases, high-quality data on embedded emissions in products of other Eurasian countries (i.e. except Russia) were missing. In order to overcome this issue, it was decided to use the data on embedded emissions in Russian products<sup>6</sup>. In the case of EAEU countries this is more or less a stable assumption since the countries have common borders and close economic ties between each other. For other countries this assumption may be weak. Future research on this topic suggests that Eurasian countries start to collect and publish information on embedded emissions in products they make. Under this assumption equation (1) takes the following form:

$$\begin{cases} CBAM_{i,t}^c = ne_{i,t}^c \times \tau_t \times imp_{i,t}^c = (e_i^{rus} - \alpha_t b_i) \times \tau_t \times imp_{i,t}^c \\ e_i^{rus} = e_i^c \end{cases} \quad (2)$$

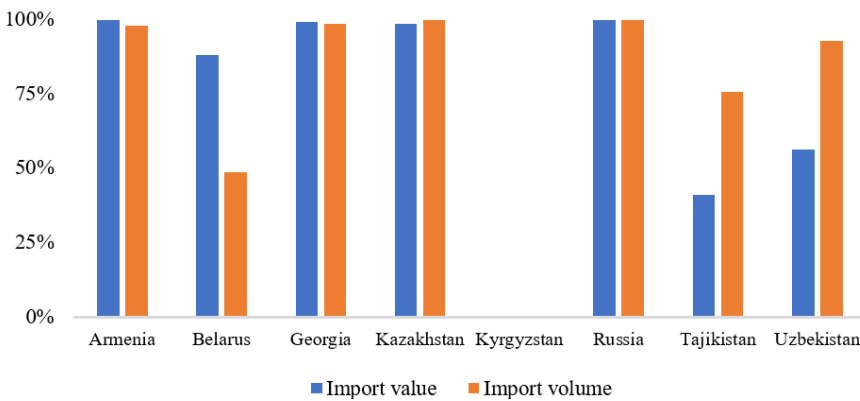
where  $e_i^{rus}$  represents embedded emissions in Russian product .

<sup>6</sup> Carbon intensity of product manufactured in different countries is likely to differ due to difference in manufacturing technologies that are used in production process. It can be assumed that more efficient ("green") technologies are used in those countries where there is a stable and positive dynamics of capital investments.



Russian data use partially solves the data issue for other Eurasian countries: for example, for products of the cotton sector, statistics on embedded emissions were not found either in Russian nor in national data of other Eurasian countries. Products with missing data on embedded emissions were not included in CBAM payment calculations. Therefore, for countries like Uzbekistan and Tajikistan, CBAM payment estimates will be biased (lower) – see figure 1.

**Figure 1. Carbon intensity coverage for CBAM import flows from Eurasian countries to EU \*, based on 2021 data**



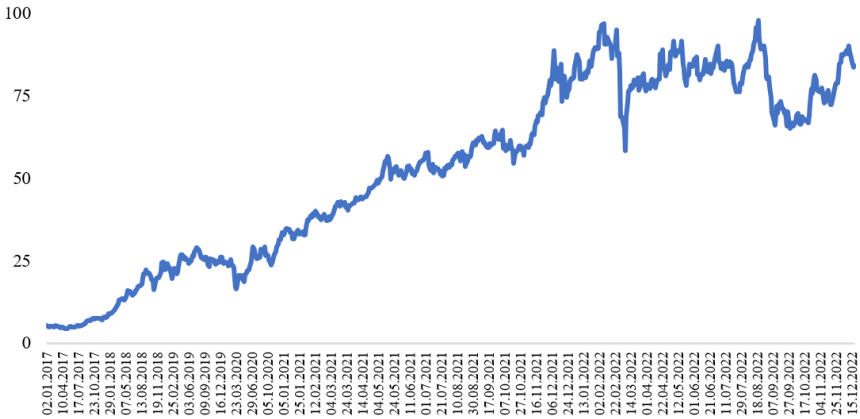
**Notes:** Information for Kyrgyz was not analyzed due to the fact the imports from Kyrgyz Republic does not fall under the CBAM (see below).

**Source:** Author's calculations.

Calculation of net embedded emission requires information on product benchmarks. Product benchmarks are used in the EU ETS in order to identify the volume of free allocation of emission allowances. Product benchmarks are listed in Commission Delegated Regulation (EU) 2019/331 (Eur-Lex, 2021).

As mentioned earlier the CBAM rate (price of CBAM certificates) will be tied to the price of emission allowances (EUA) in the EU ETS. Until 2021 EUA prices did not exceed EUR 25-30 per tonne of CO<sub>2</sub>e (see figure 2). However, since the end of 2021, the prices have skyrocketed. Such sharp EUA price growth was also driven by the tightening of EU climate policy and the expectations of further climate policy tightening. EUA prices were also affected by rising natural gas prices in the EU (not subject to EU ETS) that led to an increase in demand for coal (which is subject to the EU ETS).

**Figure 2. Example of daily EUA prices, 2010 – 2022, Euro per tonne of CO2e**



**Source:** Ember climate (Ember-climate, 2022).

In order to calculate CBAM payments the following assumptions are made in terms of the changes to the CBAM rate:

1. Average EUA price was 80 Euro per tonne of CO2e in December 2021. This price level will be used as a base level for the CBAM rate estimation until 2035 (period of analysis<sup>7</sup>).
2. The EUA price will grow with a constant rate to reach 170 Euro per tonne of CO2e in 2030. This price level is thought to be necessary to achieve the EU's 2030 climate goals (reduce GHG emissions by 55% by 2030 compared to 1990) (Butterworth, 2021).
3. According to (Pietzcker, Osorio, & Rodrigues, 2021) the EU needs the EUA price to be 350 Euro per tonne of CO2e in 2050 in order to reach climate neutrality by this time. Accordingly, after 2030 EUA prices will grow with a constant rate so that they reach 350 Euro per tonne of CO2e by 2050.

Data on imports from Eurasian countries to the EU was taken from the UN Comtrade database through the World Integrated Trade Solution (World Bank,

<sup>7</sup> Period of analysis is limited to medium term from 2026 to 2035. As mentioned below longer term analysis requires making specific assumptions on the embedded emissions in different products exported to EU. However, embedded emissions can be affected by various exogenous factors.

2022b) and from the International Trade Center (ITC, 2022). To model changes in European imports of products subject to the CBAM, information on import elasticities from (Grübler, Ghodsi, & Stehrer, 2021) was used. Imports to the EU is also subject to some kind of natural growth levels (i.e. growth levels in case of no additional trade measures). In the case of Russia these growth levels are published by the Ministry of Economic Development in the form of projections of price and quantity growth indices of exports until 2035 (Ministry of Economic Development, 2018)<sup>8</sup>. Same detailed projections to 2035 for other Eurasian countries are unavailable. Therefore, Russian data is used.

In the case of Russia and Belarus, it is important to include sanction measures in the assessment of CBAM payments. Calculations include sanctions adopted by mid-summer of 2022 (i.e. six packages of sanctions against Russia). The full list of products from Russia that are subject to EU's import sanctions (prohibitions) is published in Council Regulation (EU) No 833/2014 of 31 July 2014 (Eur-lex, 2014). Belarus' sanctioned products are listed in Council Regulation (EC) No 765/2006 of 18 May 2006 (Eur-Lex, 2006). The idea behind the inclusion of sanctions in calculations is that there are no imports of products that are simultaneously under the EU's sanctions (i.e. EU import prohibitions) and fall under the scope of the CBAM to the EU. At the same time this is not true in the case of Russian oil and oil products that fall under sanctions but with certain exemptions. According to expert estimates (European Commission, 2022) sanctions on Russian oil and oil products will result in a 90% decrease of imports of these products from Russia to the EU. Therefore, the import volume of oil and oil product from Russia is set to 10% of 2021 levels for the whole period of analysis.

The period of analysis is limited to 2026 – 2035. Longer term analysis requires making assumptions about embedded emissions in Eurasian products. However, embedded emissions are affected by a lot of exogenous factors that are

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<sup>8</sup> It should be noted that these projections were published before EU adopted sanctions against Russia in 2022. Therefore, these projections may be biased upwards. The EU also plans to stop imports of electricity and energy products from Russia. However, in this work it is assumed that the EU will continue importing these products (taking into account sanction measures that are already implemented by mid-July 2022).

problematic to predict. It is also assumed that during 2026 – 2035 the CBAM parameters will change 2 times in 2029 and 2032:

1. During 2026 – 2028 the CBAM parameters will be the same as in the EC proposal. The CBAM will cover imports of cement, electricity, fertilisers, iron and steel, aluminium. The mechanism will cover direct emissions from products and input materials (scope 1 and part of scope 3).
2. Starting from 2029 the CBAM will start to be applied in relation to imports of oil products, chemicals and polymers. The emission scope will be extended to indirect emissions (scope 2).
3. Starting from 2032 the CBAM will be applied to imports of all products that are produced in carbon leakage sectors and natural gas. Natural gas does not belong to products produced in sectors deemed to be at risk of carbon leakage. Its inclusion in the analysis is necessary to analyze the worst possible CBAM consequences. However, it should be noted that at the moment EU authorities view natural gas as an environmentally sustainable economic activity and therefore its inclusion under the CBAM is improbable.

#### **4. Payment estimates**

The CBAM payments for imports from different countries depends on the trade relations of these countries with the EU. According to 2019 – 2021 data, the EU was one of the key export destinations for Armenia, Georgia, Kazakhstan and Russia (see table 2). Based on the mean trade values for the period of 2019 – 2021, the CBAM will cover quite a significant share of imports from Armenia, Belarus and Tajikistan (see table 3). In a situation when the CBAM affects all goods produced in sectors deemed to be at risk of carbon leakage and natural gas, it will mainly cover imports from Kazakhstan, Russia, Tajikistan and Armenia. For Kyrgyzstan, the EU is not a key export destination (EU imports small amount of goods from Kyrgyzstan). In addition to this, the CBAM will cover only 1.5% of imports from Kyrgyzstan to the EU under the worst-case scenarios. In other scenarios the CBAM will not affect imports from Kyrgyzstan to the EU. Therefore, the CBAM payments for imports from Kyrgyzstan to the EU will not be analyzed.

**Table 2: Exports from countries of Eurasian region to EU, share as of all respective exports, 2019 – 2021**

Exporter	Total exports, bln Dollars			Exports to EU, bln Dollars			EU share in total exports, %		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Armenia	2.6	2.5	3.0	0.6	0.4	0.7	22.1	17.1	22.1
Belarus	33.0	29.2	39.9	6.0	5.4	5.4	18.1	18.5	13.6
Georgia	2.7	2.6	3.3	0.8	0.7	0.7	28.0	26.0	20.2
Kazakhstan	57.7	46.9	-	24.2	17.7	-	42.0	37.6	-
Kyrgyzstan	2.0	2.0	1.7	0.1	0.1	0.0	2.6	2.6	2.9
Russia	422.8	337.1	492.3	176.0	113.8	188.1	41.6	33.8	38.2
Tajikistan	1.1	1.3	1.8	0.1	0.1	0.1	4.8	5.0	6.5
Uzbekistan	14.3	13.1	14.0	0.2	0.2	0.4	1.2	1.6	2.8

Notes: "-" – not available.

Source: Based on ITC's data (ITC, 2022).

**Table 3: Imports to EU subject to CBAM, mean share for 2019 – 2021, %**

Trade partner	Trade flows without sanctions				Trade flows with sanctions			
	EC proposal	EP proposal	Council proposal	Worst-case scenario	EC proposal	EP proposal	Council proposal	Worst-case scenario
Armenia	15.7	15.8	15.7	68.5	-			
Belarus	20.2	23.7	21.0	52.9	8.4	13.9	9.6	25.4
Georgia	7.1	7.9	7.2	66.8	-			
Kazakhstan	1.2	1.3	1.2	95.9	-			
Kyrgyzstan	0.0	0.0	0.0	1.5	-			
Russia	7.7	9.5	7.8	87.3	13.3	16.3	13.5	75.4
Tajikistan	25.2	25.2	25.2	73.4	-			
Uzbekistan	3.6	11.4	4.1	44.0	-			

Notes: Inclusion of sanctions meant the decrease of import flows by total imports of sanctioned goods.

Source: Based on UN data (World Bank, 2022b).

As mentioned above, in the case of Russia and Belarus it is crucial to include sanction measures in the analysis. Correction for EU import prohibitions (sanctions) on average decreases 2019 – 2021 imports from Russia to the EU by 60%. The same correction for Belarus decreases imports from this country to the EU by 37% on average in the period 2019 – 2021. When correcting for sanctions adopted by July 2022, it can be seen that in the case of adoption of the CBAM in accordance to the EC, EP or Council of the EU, the proposed share of imports from Russia affected by the CBAM is bigger compared to the situation of no

sanctions. In the case of Belarus, the situation is opposite: the share of imports from Belarus covered by the CBAM (the EC, EP and Council of the EU proposals) is smaller in case when import trade flows are corrected for sanctions.

One of the key elements affecting the dynamics of CBAM payments is the CBAM pass-through rate (i.e. portion of CBAM payments transferred to the final prices in the EU). The higher the rate, the lower the payments. This can be explained by the fact that significant price growth for imported products (*ceteris paribus*) leads to a sizeable decrease in imports and, therefore, a decrease in CBAM payments. The current research concentrates on the analysis of 2 extreme cases: 0 (CBAM payments are borne by exporters<sup>9</sup>) and 1 (CBAM payments are borne by EU consumers) pass-through rate. In this framework the smallest total CBAM payment during 2026 – 2035 will be for imports from Armenia to the EU (see table 4). It is equal to 95.8 mln Euros under single CBAM pass-through rate. The biggest total payment during 2026 – 2035 is for imports from Russia. It is equal 97 bln Euros when only exporters bear the costs of the CBAM. The CBAM payment holds a significant share in exports of Uzbekistan, Georgia, Tajikistan and Belarus to the EU (see table 5).

**Table 4: CBAM payments, 2026 – 2035, mln Euro**

Exporter	Pass through	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Armenia	0	1.6	2.5	3.5	5.6	7.3	8.8	14.4	17.0	19.8	22.9
	1	1.6	2.4	3.4	5.4	6.8	8.2	13.4	15.7	18.1	20.8
Belarus	0	253.4	286.9	325.6	523.2	601.7	659.1	952.8	1050.6	1159.3	1279.1
	1	63.9	67.0	70.5	169.7	188.2	205.1	367.8	403.8	443.3	486.2
Georgia	0	33.8	44.4	57.8	81.3	102.9	123.6	166.2	196.0	231.9	273.9
	1	29.2	37.4	47.3	64.5	79.2	93.0	121.1	140.0	162.6	188.2
Kazakhstan	0	13.3	16.6	20.6	45.1	53.9	61.2	2173.1	2272.6	2378.6	2491.0
	1	11.9	14.8	18.3	38.0	45.0	50.9	1893.5	1968.7	2048.1	2130.5

<sup>9</sup> Additional assumption of this paper is that EU importers (and other organizations along the supply chain) have a bargaining power over the exporters. As a result, all CBAM-related costs are borne by either exporters or EU consumers (or both).

**Table 4: CBAM payments, 2026 – 2035, mln Euro**

Exporter	Pass through	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Russia	0	2436.3	2881.5	3411.3	5658.0	6698.2	7557.4	14531.6	16141.8	17923.4	19876.6
	1	1089.8	1243.9	1413.2	2711.8	3090.5	3425.4	7879.6	8535.9	9217.8	9924.0
Tajikistan	0	2.9	4.0	5.2	7.7	9.6	11.3	13.2	15.3	17.6	20.1
	1	2.9	3.9	5.1	7.4	9.1	10.7	12.4	14.3	16.3	18.4
Uzbekistan	0	10.8	14.2	18.5	48.5	59.4	69.2	107.5	122.0	138.5	156.8
	1	9.9	12.8	16.3	41.8	50.3	58.0	86.8	97.6	109.5	122.7

Source: Compiled by author.

**Table 5: Mean CBAM payments as a share of 2021 exports from Eurasian region countries to EU, %**

Exporter	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Armenia	0.3	0.4	0.6	1.0	1.3	1.5	2.5	2.9	3.4	3.9
Belarus	3.4	3.8	4.3	7.4	8.5	9.3	14.2	15.6	17.2	18.9
Georgia	5.5	7.2	9.2	12.8	15.9	18.9	25.1	29.4	34.5	40.4
Kazakhstan (2019)	0.1	0.1	0.1	0.2	0.2	0.3	9.8	10.2	10.6	11.1
Russia	1.1	1.3	1.5	2.6	3.0	3.4	6.9	7.6	8.4	9.2
Tajikistan	2.9	3.9	5.1	7.5	9.3	11.0	12.8	14.7	16.9	19.2
Uzbekistan	3.1	4.1	5.2	13.5	16.5	19.1	29.2	32.9	37.2	41.9

Notes: Later data for Kazakhstan is not available (and 2020 was affected by the effects of COVID-19). Exchange rate used for calculations: 0.86 Euro per dollar.

Source: Compiled by author.

According to estimates, the biggest share of payments falls on metals, fertilisers, electricity and oil (see table 6). Nevertheless, for some countries in the sample product-level, the CBAM payments analysis is limited due to carbon intensity data issues. For example, during 2026 – 2035, the total CBAM payment for imports from Tajikistan to the EU equals the sum of payments for imports of HS “760110” (aluminium, not alloyed) and HS “390290” (other polymers of propylene)<sup>10</sup>. In 2021, the share of imports of these products from Tajikistan to the EU in total imports from Tajikistan to the EU was 35.7%. At the same time the CBAM will cover HS “811010” (Unwrought antimony; powders). In 2021 share of imports of this product from Tajikistan to the EU in total imports from Tajikistan to

<sup>10</sup> Under current assumptions this product falls under CBAM starting from 2029.

the EU was 51.3%. Data on embedded emissions in unwrought antimony (powders) is unavailable. Therefore, payments for Tajikistan are probably downward biased. This limitation prevents the correct identification of goods that have the biggest share in CBAM payments for Tajikistan.

**Table 6: Products with the biggest share of CBAM payments**

Exporters	HS-6			Total share in CBAM payment, 2026 – 2035	Total share in imports to EU, 2021
Armenia	Aluminium foil	Ferro-molybdenum	Copper ores	99.8%	65,1%
Belarus	Electrical energy	Urea	Urea resins; thiourea resins	53.9%	13,0%*
Georgia	Ammonium nitrate	Urea	Methanol	97.0%	14,7%
Kazakhstan	Petroleum oils	Cathodes and sections of cathodes (Refined copper and copper alloys, unwrought)	Aluminium, not alloyed	93.3%	92,5%
Russia	Semi-finished products of iron or non-alloy steel	Mineral or chemical fertilisers, nitrogenous	Natural gas in gaseous state	33.5%	26,7%*
Tajikistan	Aluminium, not alloyed	Other polymers of propylene		100.0%	35.7%
Uzbekistan	Polyethylene	Ammonium nitrate		86.3%	23.7%

**Notes:** "\*" – trade flows were corrected for EU sanctions adopted by mid-July 2022.

**Source:** Compiled by author.

Despite the above limitations, the estimates indicate that for certain industries from the analyzed countries of the Eurasian region, the CBAM may pose a significant risk. For example, for Armenia, about 80% of the total payment falls on rolled aluminum foil not further worked. For Georgia, the biggest share of payment falls on fertilizers, for Kazakhstan – on oil, for Uzbekistan – on fertilizers and polyethylene. In case of Belarus and Russia when adjusting trade flows for EU sanctions measures it can be seen that CBAM payments are relatively evenly distributed among all goods imported from these countries to the EU that are also subject to this BCA. However, in relation to these countries, the EU is radically



changing its trade policy in terms of reducing imports. Accordingly, it can be assumed that in reality for Belarus and Russia, CBAM payments will be lower than the above estimates.

## 5. Conclusion

Climate becomes one of the pillars of economic growth of different countries and integration blocs. Border carbon adjustments are gaining popularity in the world since they help to achieve climate goals and level the playing field between domestic and foreign companies in countries with strict climate regulations. The EU is a pioneer in adopting its own carbon border adjustment mechanism. This paper concentrated on the analysis of direct CBAM effects: namely the amount of payments for imports of products from Eurasian countries to the EU. The analysis showed that the biggest total CBAM payment during 2026 – 2035 falls on the imports of products from Russia, Kazakhstan and Belarus to the EU. The smallest CBAM payment is estimated to be for imports of products from Armenia to the EU. The CBAM will not affect imports from Kyrgyzstan to the EU. In general, during the analyzed period, annual CBAM payments for each analyzed country tend to grow due to a number of factors: extension of CBAM product coverage, increase in CBAM rate, elimination of free allocation in EU ETS (which is mirrored within CBAM).

In the case of Belarus and Russia, the EU's tightening of sanctions regime will lead to a further decrease of CBAM payments. As a result, possible CBAM effects on the economy of these countries will be smaller. At the same time the CBAM may lead to the adoption of the analogous mechanisms by other trade partners of Eurasian countries that are actively developing and implementing their own "green agenda" (Votinov, Lazaryan, Radionov, & Sudakov, 2021; Yakovlev, Kabir & Nikulina, 2022). In this light export commodities of Eurasian countries may partly lose competitiveness on a global scale. Therefore, a decrease in carbon intensity of products and acceleration of "green" transition in Eurasian countries should be one of the priorities of the industrial and economic policies of these countries.

Despite the country of analysis, most CBAM payments fall on imports of metals, fertilisers, electricity and oil. This conclusion should be taken with a grain of salt because of the lack of quality data on the carbon intensity of products made in Eurasian countries is not always available. Consequently, Eurasian countries should adopt a transparent system for collecting and publishing high-quality and detailed information on embedded emissions of different products. At the same time, country-specific CBAM payments are concentrated in certain sectors and products: for Armenia it is aluminium, for Georgia it is fertilizers, for Kazakhstan it is oil, for Uzbekistan payments mainly fall on imports of fertilizers and polyethylene to the EU. In the case of Belarus and Russia, payments are evenly distributed among imported products to the EU, but the conclusion is sensitive to the further developments in the EU's sanction policy.

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**Ethics Committee Approval:** Ethics committee approval is required for the study.

**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The author has no conflict of interest to declare.

**Grant Support:** The author declared that this study has received no financial support.

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RESEARCH ARTICLE

## The Rise of Household Debt in Global Economy and Türkiye

Murat BİRDAL<sup>1</sup> , Serdar ACUN<sup>2</sup> , Parla ONUK<sup>3</sup> 

### ABSTRACT

This paper investigates the rise of household debt and its impact on class relations and the sustainability of capitalism. The analysis begins with a historical perspective on the factors contributing to household debt growth, such as declining wages, increasing pressure on organized labor, and the need to maintain consumer demand in the face of declining profit margins. The paper then compares the dynamics of household debt across countries and examines Türkiye's case in a global context. The findings suggest that unsustainable household debt levels, declining wages, and rising inequality; raise doubts about the long-term sustainability of capitalism as we know it. The paper advocates for rethinking economic policies and practices, prioritizing the well-being and prosperity of the majority.

**Keywords:** Household indebtedness, inflation, financialization

**JEL Classification:** G51, E31, F34



DOI: 10.26650/ISTJCON2023-1242692

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**Submitted:** 26.01.2023

**Accepted:** 25.10.2023

**Citation:** Birdal, M., Acun, S., & Onuk, P. (2023). The rise of household debt in the global economy and Turkey. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 697-716. <https://doi.org/10.26650/ISTJCON2023-1242692>



## 1. Introduction

The oil shock of 1973 took a heavy toll on the global economy and brought about a sharp rise in production costs. At a time when profit rates in Western economies exhibited a continuous decline from their peak levels in 1950s, this supply shock meant a further squeeze on profit margins. Against this trend, capitalist states pushed back by increasing political pressure on organized labor. In the face of high inflation, real wages were significantly reduced in the face of high inflation. However, a consequent decline in the wage share of national income posed another threat for market capitalism, this time on the demand side. Consequently, the neoliberal transformation was accompanied by unprecedented increases in household debt, which became the driving force behind consumer demand. The rise of household indebtedness not only reshaped class relations but also profoundly affected daily life's social and economic aspects. Moreover, it fueled doubts about the sustainability of capitalism as we know it.

In Türkiye on the other hand, low level of household debt is often interpreted as an assurance for its sustainability. However, the trajectory of the household debt-to-income ratio and the composition of household debt merit a closer examination of the underlying dynamics.

This paper examines the rise of household indebtedness from a historical perspective, identifies its dynamics through cross-country comparisons, and discusses its implications for the future of global capitalism. The second part analyzes the Turkish case in a global context.

## 2. End of American Dream and Household Indebtedness

The post-World War II period was an era of rapid economic growth and rising prosperity in the Western world. In the United States, blue-collar workers enjoyed an unprecedented increase in income, and job security. Consequently, the living standards of Americans improved drastically. By the end of the 1950s, around 87% of all households owned at least one television, 75% owned a car, and 60% owned a home (Morgan, 2019).

After the war, more than 20 million people were released from the armed forces and related employment. The end of the war; economy could create a giant wave of unemployment unless the civilian economy absorbed these masses. In just two years, the US reallocated 16 million people, a third of the labor force, to non-military sectors. President Truman described this mobilization as the "swiftest and most gigantic change-over that any nation has made from war to peace" (Bohanon, 2012, p. 3). The emergence of mass consumption culture was critical in this process. Public figures ranging from government officials to columnists, business executives to labor union leaders, emphasized the importance of mass consumption in creating well-paying jobs. Consumption was no longer a matter of personal indulgence, but a civic responsibility. Growing consumer demand would promote economic growth, increase employment and wages, and lead the pathway to the realization of an affluent society. Thus, a "consumer's republic" was born (Cohen, 2004).

During this period, American working class also recorded significant gains in working conditions. Average work hours in the civilian economy were reduced from 47 to 40 hours between 1944 and 1953. Paid vacations and holidays, uncommon until the 1940s, were extended to two-thirds of all nonfarm workers by 1968 (Moore and Hedges, 1971). In particular, union factory jobs, especially those that provided better working conditions came to be accepted as a "critical steppingstone to the middle class" (Biondi, 2006, p. 26). Union membership also exhibited a steady rise and the unionization rate; as a percentage of wage and salary employment; peaked in 1954 at 34.8% (Mayer, 2004, p. 11).

Between 1948 and 1973, the US economy grew dramatically, expanding at an annual rate of 3.95% (Fernald, 2016, p. 8). Conversely, inflation had become an issue of the past, fluctuating in the range of 1%–2%. During this period, productivity growth reached 97% and became the main driver of economic expansion (Mishel, Gould, and Bivens, 2015). For nearly three decades, real wage growth kept pace with productivity growth, even exceeding it from 1953 to 1963. At its peak in 1970, wage share of GDP was 51.6% (FRED, 2022 February 23). However, postwar prosperity did not last long for blue-collar America. The

pursuit of the American dream was thwarted by economic and political events that resulted in a profound economic transformation and tilted the balance of power against workers.

In the 1970s, Americans faced an economic slowdown and a dramatic inflation surge. The Vietnam War was an important factor, and it proved to be a costly mistake for the US government. In the face of recurring budget deficits and a growing current account deficit, the Nixon administration decided to end the dollar's peg to gold in 1971. This decision sent the dollar down against other major currencies and set the stage for an unprecedented period of inflation. Then came the 1973 oil shock. With rising production costs, inflation became out of control. Following the second oil shock in 1979, inflation accelerated to 13.5%. In response to inflation, the Fed raised the fed funds rate from 11% in 1979 to 20% in 1980 (FRED, 2022 February 22). This new monetary policy, the Volcker shock, not only managed to bring down inflation; but also caused the appreciation of the dollar against other currencies and widened the US's current account deficit. As a result, the unemployment rate increased dramatically from 6% to 10.8% between 1979 and 1982 (FRED, 2022 February 22.). The growing labor reserve army and high inflation laid the groundwork for a new era of real wages sharply declining. This new era also marked the rise of neoliberalism as a hegemonic ideology.

Profit rate analysis could provide more information about the class dynamics behind this transformation. The profit rates in the postwar US economy remained generally above 20% until 1966. Moreover, the profit rates began to fall in the second half of the 1960s, and the company suffered approximately a 50% loss over the period 1965-1974 (Moseley, 1997, p. 25). Increasing the bargaining power of labor unions surely played a pivotal role in this process. However, the 1973 and 1979 oil shocks caused a spike in raw material prices and dealt a fatal blow to the already struggling profit rates. American capitalists sought to recoup their profits by driving down real wages, launching a concerted attack on organized labor.



Economists often assume that wages are determined in the marketplace, and workers are paid the marginal product of their labor. However, the reality is much more complicated and involves political dynamics. Hibbs (1977) demonstrated the importance of labor unions and militancy of workers for the determination of wages. Similarly, Ashenfelter, Johnson, and Pencaval (1972) concluded that union strikes increase wage growth independent of supply and demand conditions. Meanwhile, Freeman and Medoff (1984) argued that unions appear to be beneficial to both non-union and union members. All these works, along with many others (Flanagan, 1976; Parsley, 1980), emphasized that wages are determined by "a tug of war between employers and workers" (Applebaum, 2019).

From the 1970s on, without a doubt, employers were gaining ground in the tug of war. Union membership has steadily declined, peaking at 22% in 1980 and falling to 15% in the early 1990s (Mayer, 2004, p. 22). During this time, wage growth lagged far behind productivity growth. From 1973 to 2013, productivity growth averaged around 74%, whereas real wage growth remained at 9% (Mishel et al., 2015). Similarly, the wage share of GDP fell from 51.6% in 1970 to 45% in 1996 and reached 42% in 2013 (FRED, 2023 February 23).. Wage inequality has also increased at an unprecedented rate. Over the period, the top 1% of wage earners saw their annual pay increase by 138%, whereas the bottom 90% saw a mere 15% increase (Mishel et al., 2015). As a result, the postwar period's burgeoning middle class shrank substantially.

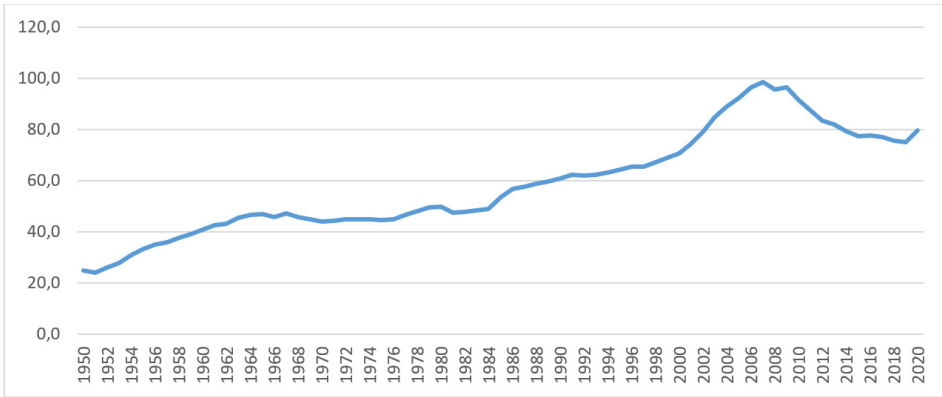
The deterioration of income equality would have adverse effects on consumer demand. However, it was just the opposite. At a time when the US middle class contracted, consumer demand continued to expand. Moreover, between 1981 and 2009, consumption growth outpaced GDP growth as the share of personal consumption expenditures in GDP increased from 60% to 69% (FRED, 2022 February 23). One major dynamic responsible for this otherwise inexplicable phenomenon was the rise in household debt, which more than compensated for the loss of pace in real wage growth and fueled consumer demand.

### **3. Financialization and Household Indebtedness in the Capitalist World Economy**

An important feature of the transformation of the US economy in the 1980s was financialization. In response to the drop-in profit rates, US firms shifted their investments from production to finance. Ample liquidity, low interest rates, and deregulations further supported the burgeoning financial sector. Financialization not only meant rising dominance of the financial sector, but also increasing reliance of nonfinancial firms on financial services and their increasing participation in financial markets. In the 1970s, the share of financial income in nonfinancial firms' realized profits was approximately 15%, but by the 2000s, this ratio had risen to 40% (Lin and Tomaskovic-Devey, 2013, p.1287). Household financialization is a related development that is characterized by the emergence of households as investors, increasing levels of household debt, and the development of a financial system that integrates individual households into global financial markets (De Vita and Luo, 2020).

Household debt consists mainly of mortgage loans, motor vehicle loans, student loans, credit cards, and other consumer loans. In the US, mortgage loans are by far the largest component, making up around 70% of total household debt (Catanzaro, 2020, p. 21). Over the years, household debt grew rapidly, especially after the 1980s. The household-debt-to-GDP ratio was around 25% in the early 1950s, but it rose to 50% in 1980 and 98% in 2007. Following the 2008 mortgage crisis, it declined significantly due to expansionary policies, stricter regulations, lower interest rates, and considerably lower debt service costs. In 2020, it was approximately 80% (Fig. 1).

**Figure 1. The US Household Debt, Loans, and Debt Securities (percent of GDP), 1950–2020.**



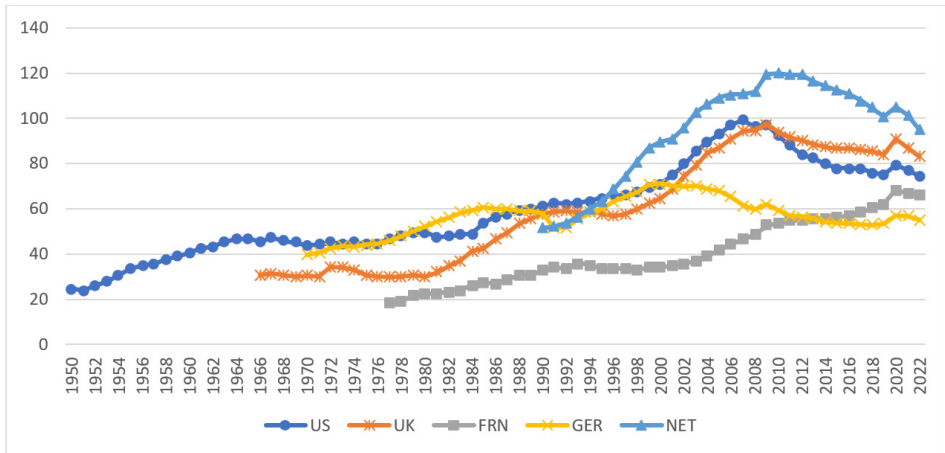
Source: IMF, 2023, 30. 10.

Securitization was a major contributor to the dramatic increase in household debt. In the 1970s, government-backed agencies pioneered the securitization of mortgage loans. The securitization market expanded dramatically in the 1980s, and other income-generating assets began to be securitized. Many banks are securitizing their loans and transferring credit risk to third-party investors. Initially, this process was widely considered the “greatest financial innovation of the twentieth century,” and its side effects were believed to be benign (Wong, 2009). Millions of Americans could access financial markets and borrow at considerably lower rates. However, because the loan originator did not bear the credit risk, it led to lax screening procedures and created a moral hazard problem (Keys, Mukherjee, Seru, and Vig, 2008). Following the 2008 financial crisis, the risks associated with securitization became more apparent.

Market interest rates also play a crucial role in the trajectory of the household debt. After the burst of Nasdaq bubble in 2000, Fed pursued an expansionary monetary policy and significantly lowered the interest rates. In this period, household debt grew much higher than GDP, and household debt ratio increased from 70% to 98% in only 6 years. However, the upward pressures on the interest rates increases the cost of servicing debt and the likelihood of defaults. Fed monetary tightening after mid-2004 became the main catalyst in the mortgage crisis and exposed the fragility of the entire system.

The rise in household debt was not peculiar to the United States. After the 1980s, the widespread adoption of neoliberal policies and the emergence of the consumer culture as a global phenomenon brought a worldwide rise in private household liabilities. In the US and Western Europe, household debt rose, particularly in the early 1990s and 2000s (Fig. 2). In many developed countries, consumer spending took a heavy hit after the crises of 2008. The sudden surge in the household debt ratio in this period was largely due to the contraction of the GDP. Among these countries, the Netherlands deserves special attention because it is ranked first. The Dutch are known to be the most indebted households in Europe due to tax breaks for leverage and high housing prices. Furthermore, unlike in the US and the UK, Dutch households have very limited options for debt restructuring due to the legal framework. Negative equity affects one-third of Dutch homeowners. However, due to the Draconian nature of the regime, many people choose not to use the consumer insolvency procedure, which is unlikely to result in debt discharge (Klein, 2016).

**Figure 2. Household Debt, Loans, and Debt Securities (percent of GDP) in Selected European Countries and the US, 1950–2022.**



Source: IMF, 2023, 30. 10.

#### 4. Social Consequences of Over-Indebtedness

In recent decades, the capitalist world economy has witnessed an unprecedented surge in household debt. This development not only increased

the fragility of the economic system, but also had profound effects on social life and well-being of the individuals.

Financial distress is a major contributor to psychological and physical health issues. Individuals who are struggling to meet their debt payments suffer severe stress, work longer hours, and cut back on health care and medicine. According to empirical research, people who have unpaid loans are more likely to have suicidal thoughts and suffer from depression (Turunen and Hiilamo, 2014, p. 7). Mental stress often leads to physical ailments. A significant portion of individuals with debt suffer from tension, headache, upset stomach, and loss of appetite (Hiilamo, 2018, p. 115). Another study reported that over-indebted individuals experience physical pain more frequently than the general population, although they are less likely to use pain medication (Warth et al., 2019). Furthermore, even when controlled for other socio-economic factors and pre-existing health problems, people with financial debt are two and a half times more likely to commit suicide (Rojas, 2022, p. 1448).

According to studies, increasing debt causes people to cut back on social activities and focus on the necessities of daily life. Many people describe their lives as a struggle to make ends meet and describe themselves as “existing” rather than “living” (CPEC, 2013, p. 176). Over-indebtedness results not only in social exclusion but also exclusion from many essential household services such as internet or phone subscription. It is also more difficult for them to find a new job (CPEC, 2013, p. 189; Ford, 2018, p. 137).

Marx famously said, “the proletarians have nothing to lose but their chains” (Engels and Marx, 2004 [1848], p. 103). Today, the lower and middle classes live in houses paid by the banks, driving cars paid by the banks, and even wearing clothes paid by the banks. Not only do they not own them, but a significant portion of households also have a deficit net worth. However, this does not mean they have nothing to lose. They can lose the home they live, the car they drive if they somehow lose their income stream. Household indebtedness serves as the shackles of the modern-day working class. Afraid of losing their means of

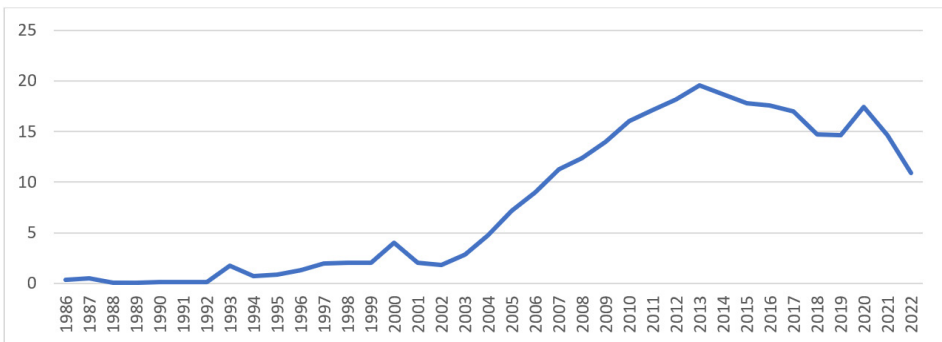
livelihood, billions of people cling to their jobs and avoid any frictions in the workplace, regardless of how dissatisfied they feel with their work, pay, or their working conditions.

Today, household indebtedness is an essential component of modern capitalism. It enables a greater surplus value extraction by restricting the bargaining power of the working class, who accept longer working hours and lower subsistence levels. Over-indebted workers can no longer risk losing their jobs and are less likely to organize unions or defend their rights through strikes (Lattanzi-Silveus, 2019).

### 5. The Rise of Household Debt in Türkiye

In Türkiye, the household-debt-to-GDP ratio remained considerably low until the early 2000s and increased from 0.4% to 4% in the 1986–2000 period. Following the 2001 crisis, which shook the economy to its core, the country implemented a comprehensive banking reform. A more robust banking system combined with a favorable global liquidity environment fostered credit expansion, and by 2020, the household debt ratio reached 17.4% (Fig. 3).

**Figure 3. Household Debt, Loans, and Debt Securities (as % of GDP) in Türkiye, 1986–2022.**



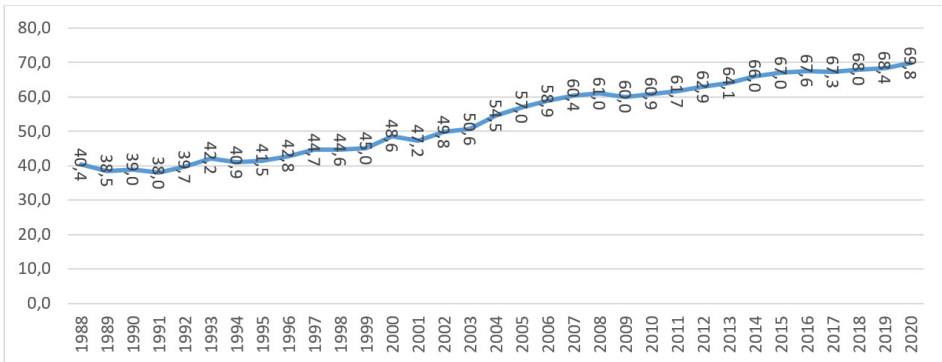
**Source:** Mbaye, Moreno-Badia and Chae, 2018; IMF, 2023, 30. 10.

In the pre-2001 period, total assets of the banking system were composed mainly of government debt. The financing of public debt through central bank

was a major problem behind the surging inflation of the 1990s. The reforms implemented after the crisis aimed to tame the inflation through fiscal discipline and monetary tightening. The government was no longer allowed to borrow funds from the central bank. These reforms, along with the easing liquidity conditions in the global markets, brought down the inflation and lowered interest rates on government bonds. Changing economic environment also led the banks to shift their focus away from government debt instruments to private lending activities (Türel, 2011).

During this time, wage increases were primarily tied to the central bank's announcement of inflation target. However, realized inflation rates frequently remained above the inflation target, eroding wage earners' purchasing power. This caused households to rely heavily on bank loans to maintain their standard of living (BSB, 2015). On the other hand, firms sought foreign currency loans with considerably lower interest rates due to favorable conditions in foreign exchange markets. Therefore, banks turned to consumer lending and developed aggressive marketing strategies for consumer credit markets (Akçay, 2017).

**Figure 4. Wage Worker (% of Total Employment)**

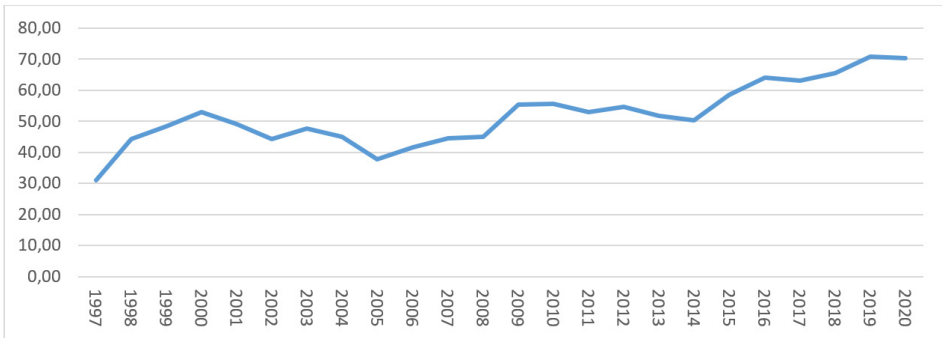


**Source:** TURKSTAT, 2022.

Between 1988 and 2020, the share of wage earners in total employment rose from 40% to almost 70% in Türkiye (Fig 4). The dramatic change in the employment structure also played a pivotal role in reshaping the banks' loan portfolios, which placed a growing emphasis on wage earners. This period was

also marked by market reforms to deepen the country's integration into global markets by increasing international competitiveness through a more flexible labor market and lower labor costs. Wage earners increased their use of bank loans to compensate for real wage losses in a more flexible labor market with high unemployment and widespread concerns about job security (Karaçimen, 2014). Particularly during economic downturns that brought mass layoffs and delayed wage payments, Turkish households resorted to consumer loans, and many found themselves gradually drawn into a spiraling debt trap (Karaçimen, 2015).

**Figure 5. Ratio of Loans Used by Wage Employees to Total Consumer and Housing Loans**



**Source:** The Banks Association of Türkiye, 2022: 23. 02.

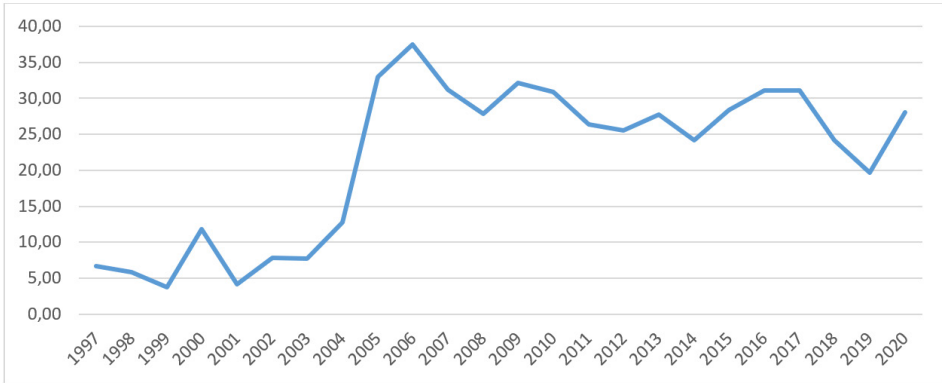
As shown in Figure 5, the proportion of consumer and housing loans made to waged employees increased from 30% in 1997 to 70% in 2020. This dramatic increase was partly caused by an increasing share of wage employment in total employment. However, another major reason was the employees' real wage losses.

Changes in consumption patterns were another major factor driving the rise in household debt. Several factors, including globalization, technological advancements, and rapid urbanization, radically altered Turkish household consumption patterns beginning in the 1980s. Initially, electrical products such as televisions, washing machines, and refrigerators were used, and then electronic products such as computers and smartphones became household staples in Turkish homes. This period also marked the emergence of consumer society in Türkiye, which brought greater reliance on bank loans (Öztay, 2021).



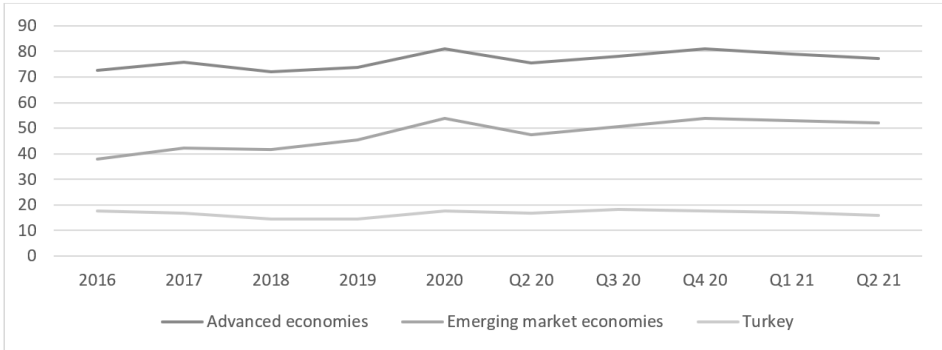
In consumer societies, positional concern is another key determinant of household consumption. Studies show that households with relatively lower incomes tend to spend a higher portion of their income on consumption and are more likely to increase their consumption through debt to “keep up with the Joneses” (Albayrak, 2020).

The increase in housing loans is another important factor driving household debt. As shown in Figure 6, the share of housing loans in total consumer and housing loans increased from 6.6% in 1997 to 37% in 2006 and is observed to reach 28% in 2020. Behind this surge is a bold growth strategy highly dependent on the construction sector. During its tenure, the AKP (Justice and Development Party) government prioritized the construction sector as the backbone of Turkish industry and channeled funds to it to stimulate economic growth. These efforts also occurred during rapid urbanization, which increased housing demand in metropolitan areas. Because of the availability of relatively low-cost mortgage loans, the urban middle classes were able to finance their housing demand through the banking system. Therefore, along with the transformation of the banking system, demographic factors also played a significant role in the increase in household debt in the country (Aslan and Dinçer, 2018). To mitigate the negative effects of the global crisis, the Turkish government pursued a loose monetary policy and increased credit supply, particularly after 2009, encouraged by global liquidity conditions. However, due to increasing unemployment and substantial real wage losses, households facing severe financial difficulties frequently turned to consumer loans to maintain their standard of living. Therefore, the share of mortgage debt in total household debt decreased.

**Figure 6. Ratio of Housing Loans in Total Consumer and Housing Loans in Türkiye**

**Source:** The Banks Association of Türkiye, 2022: 23. 02.

Figure 7 enables us to assess Türkiye's current state of household Türkiye debt globally. The household debt-to-GDP ratio is significantly higher in developed economies -around 80% on average - due to several factors such as deeper financial markets, lower financing costs, greater financial inclusion, and greater financial literacy. On the other hand, Türkiye has a household debt-to-GDP ratio of 17%, which is even considerably lower than the average in developing countries. This huge gap might be attributed in part to religious values. In Türkiye, a significant portion of the population abstains from interest-based financial dealings due to their religious beliefs (Davutyan and Öztürkal, 2016). In times of financial need or distress, these people frequently seek loans from family and friends and prefer to borrow foreign currency or gold. As a result, official household debt figures remain significantly lower than they should be. Furthermore, according to some studies, Türkiye has the lowest financial literacy score among developing countries (Karakurum-Özdemir, Kokkizil, and Uysal, 2019). The lack of familiarity with financial instruments and concepts is another factor that leads to low financial inclusion.

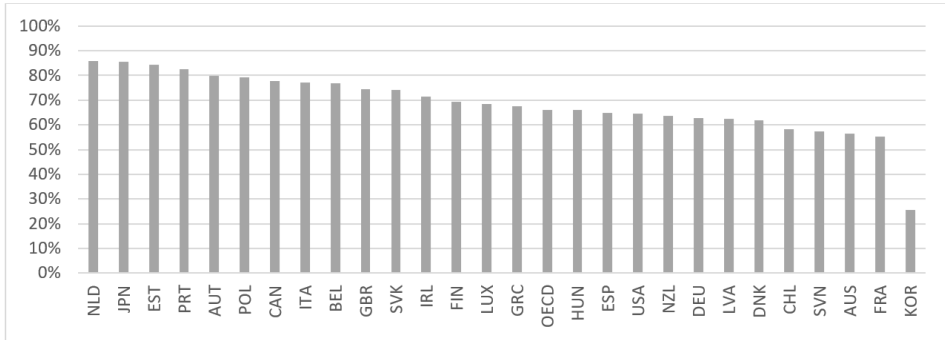
**Figure 7. Total credit to households (core debt) as a percentage of GDP.**

**Source:** Bank of International Settlements, 2022: 23. 02.

Another important aspect of household debt in Türkiye is the composition of debt. In OECD countries, mortgage debt holds a 66% share in total household debt (Fig. 8). Despite its recent growth, the share of mortgage debt is still considerably lower, around 28% in Türkiye. One major reason for this disparity is the relatively underdeveloped nature of financial markets, specifically the country's secondary mortgage market (Karaçimen and Çelik, 2017).

In Türkiye, a low household debt-to-GDP ratio is frequently interpreted as guaranteeing household debt sustainability. This argument may be deceptive for several reasons. First, economic growth in developing countries is highly volatile. The Turkish economy is an excellent example, with periods of rapid growth followed by severe recessions. A sudden and severe economic contraction would also result in a significant increase in household debt ratio. Second, the significant share of consumer loans in total household debt indicates that a sizable portion of the population borrows to make ends meet or to pay off an existing loan with a new loan. Because consumer loans have little or no collateral, their growing share of total credit increases to the banking system's vulnerability.

**Figure 8. Share of total mortgage debt in total household debt**



Source: OECD (2021).

## 6. Conclusion

Growing household debt is a necessary component of the modern capitalist world economy. On the one hand, it maintains capitalism’s inherent inequalities. Despite suppressing real wages, it boosts consumer demand and stimulates economic growth. On the other hand, it also reproduces capitalist class relations, enabling a greater surplus value extraction by restricting the working class’s bargaining power.

It is only in times of economic contraction that over-indebtedness is identified as a major problem. As companies go bankrupt and unemployment soars, markets witness a credit crunch. Households that can no longer float their debts face debt service difficulties. The household debt ratio rises in tandem with the GDP decline, the ratio of nonperforming loans to total loans rise drastically. Suddenly all key indicators go south.

For the last two decades, at this financial crisis stage, central banks have stepped in with an unprecedented amount of cash injections and lent at historically low interest rates. Through these interventions, they managed to elevate the asset prices and restored the credit flow. However, in the long run, they only created more debt to finance the old debt, increasing the fragility of the financial system and raising questions about its sustainability.

Developing countries, due to the presence of relatively immature financial markets and limited financial inclusion, have considerably lower household debt ratios. Yet, in recent years they went a long way towards catching up with developed countries in recent years. Their main issue is that their lack of domestic savings and high reliance on foreign capital flows make them more vulnerable to global market fluctuations. Concerns about exchange rates and inflation severely limit central bank policies. Hence even lower household debt levels can cause great economic and social instability.

The Turkish economy is a typical example. In the last 20 years, Türkiye has witnessed a drastic increase in household debt. One major reason was the transformation of the banking sector after the 2001 crisis and banks' increasing reliance on consumer loans as a source of growth. During the same period, wage earners' share in total employment increased rapidly. Yet, real wage growth remained fairly limited and the average wage converged to the minimum wage. Hence, wage earners resorted to bank loans to make ends meet. Finally, another important factor was the growth of the Turkish economy, led by construction. The growing housing supply and the availability of low-rate mortgage loans boosted the demand for housing and contributed to the household debt burden.

The implementation of social welfare programs targeting low-income and disadvantaged groups is a crucial policy that governments should prioritize due to rising indebtedness and increasing income inequality. Additionally, economic support packages such as rental, food, and educational assistance should be addressed in order to compensate for some of the losses experienced due to increasing indebtedness, and declining wages in the face of soaring inflation, as has been the case in our country in recent years.

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**Ethics Committee Approval:** Ethics committee approval is not required for this study.

**Peer-review:** Externally peer-reviewed.

**Author Contributions:** Conception/Design of Study- M.B., S.A., P.O.; Data Acquisition- S.A.; Data Analysis/Interpretation- M.B., S.A., P.O.; Drafting Manuscript- M.B., S.A., P.O.; Critical Revision of Manuscript- M.B., S.A., P.O.; Final Approval and Accountability- M.B., S.A., P.O.

**Conflict of Interest:** All authors declare that they have no conflicts of interest.

**Financial Disclosure:** The authors declare that this study has received no financial support.

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RESEARCH ARTICLE

## The Impact of Globalization with its Different Aspects on Economic Growth: The Case of Turkey

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### ABSTRACT

As a multi-dimensional concept that affects many other factors, globalization has a profound impact on the economy as well. It is possible to argue that developing countries are more affected by globalization than others. In this study, the impact of globalization on the various aspects of economic growth is analyzed empirically for Turkey, a developing country. The ARDL Bounds Test was applied as an econometric methodology, using the dataset period between 1970-2018 for Turkey. This study used economic, social, political, and overall globalization indices to measure globalization. The results show that social, economic, and political globalization affect economic growth positively, whereas the overall globalization index affects it negatively in the long run. The ARDL Bounds Test results show that the utilized variables in the study are co-integrated in the long run. In fact, there is an economic relationship between the variables.

**Keywords:** Globalization, Economic growth, Turkey, ARDL bounds test

**JEL Classification:** F43, F62, O47



DOI: 10.26650/ISTJECON2023-1248345

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**Submitted:** 06.02.2023

**Accepted:** 04.09.2023

**Citation:** Cestepe, H., Ergun Tatar, H., & Erdogan, S. (2023). The impact of globalization with its different aspects on economic growth: The Case of Turkey. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 717-743. <https://doi.org/10.26650/ISTJECON2023-1248345>



## 1. Introduction

Globalization expresses cross-border mobility along with an increasing integration of world nations and economies. This mobility includes not only an increased flow of trade for goods and services, capital, and ideas but also individuals (Brixiova and Treigiene, 2003, p.1). As a multi-dimensional concept, globalization economically and positively contributes to improving the quality of the workforce, increasing new job opportunities, technology transfers, developing communication and energy infrastructure, and raising national income by connecting countries with global capital (Mutascu and Fleischer, 2011, p.1691-1692). In short, globalization is a salient concept for providing economic growth and improving life standards.

The liberal view argues that globalism makes it possible for even higher economic growth (Rao and Vadlamannati, 2011, p.795), but it is difficult to reach a general consensus for the relationship between globalization and growth since globalization is a process that brings risks together with opportunities. Increasing economic globalization does not provide the expected contribution to growth in countries with fewer economic opportunities. Countries need complementing policies to boost economic growth which then reflect this condition to economic growth with openness (Calderón and Fuentes, 2006, p.50).

Globalization is an impactful process for all world nations, whether in developed or developing countries, but it affects some countries more than others. One of these countries is Turkey. The geostrategic location of Turkey is one of the most important reasons that it is affected more than others. Turkey has struggled with problems because of its challenging geographical location from the past to the present. In this regard, it has been negatively affected by globalization. During the 1990s, this negative effect was felt more because of the fragile economic structure of Turkey, which has expanded and deepened the financial crisis the country has encountered since then. However, since Turkey actively participated in the globalization process it also reaped its opportunities for the last 35-40 years.

This study observed the impact of globalization on Turkey from all the aspects of globalization. For instance, after the 1980s, the Turkish economy was transformed, when it adapted to the dynamics of economic globalization and integrated with the world economy. During this period, Turkey utilized structural reforms and left import-substitution industrialization and protective foreign policies behind and embraced the liberal policies of economics and foreign trade. Turkey has made salient progress on reform issues, such as the rule of law, democratization, and human rights, within the frame of contemporary political globalization approaches. In addition to these developments, integration of Turkey into the global system and cooperation with the international community has continued as an inevitable reality in environmental/social matters, cultural values, and international security issues.

An expansive literature collection about globalization has been formed since the 1990s. The relationship between globalization and growth is one of the salient topics in this literature. When empirical studies are examined, the topic of globalization has been approached in different periods with different methods for countries and groups. Thanks to a contemporary analysis method, this study can contribute to the literature from a methodical angle. The utilized method in this study, the ARDL bounds test, has had limited use in previous studies. In addition, this study utilized more contemporary data as compared with the previous ones.

The relationship between globalization and economic growth is econometrically analyzed in this study, using the period from 1970 to 2018 in Turkey as an example. Per capita income is used as an indicator for economic growth in the econometric model. Four separate indices (social, political, economic, and overall) are used to represent globalization. Other macroeconomic indicators of per capita income, such as inflation and external debt ratio to national income are used in the model as independent variables. The ARDL Bounds Test is utilized as a method to determine the short and long-term impact of those macroeconomic variables on economic growth and to detect whether the used variables are co-integrated in the long run.

The structure of this paper is as follows. Section two gives the conceptual framework of globalization and economic growth. Section three provides a review of the relevant empirical literature. Section four outlines the data and empirical results. Finally, section five concludes.

## **2. Conceptual Framework**

Globalization is accepted as one of the most salient reasons for the ever-changing economic settings of countries because of its multi-dimensional perspective, complexity, and constant evolution. Although both economic growth and globalization are widely analyzed, there is no consensus on the link between globalization and economic growth (Didžgalvytė-Bujauskė, Pereira, and Osteikaitė 2019, p.14). Nevertheless, globalization creates two types of impact on national economies. These can be positive and/or negative.

The positive impact of globalization on national economies induces more active working in domestic markets, an increase of investments and productivity with global competitive power, and an expansion of foreign trade volume. These positive impacts affect the growth in developing countries positively (Kilicaslan and Dumrul, 2018, p.116-117). Globalization affects not only economic growth, but also inequality positively. As such, economic discrimination and inequality decrease thanks to globalization (Maqbool-ur-Rahman, 2015, p.187). Hence, there are positive results about these qualities from Klein (2003) and Dreher (2006)'s studies that confirm this view about globalization.

When the interaction network between globalization and economic growth was examined, Husain (2000) emphasized the concepts of "international trade," "labor mobility," "financial integration," and "technical alteration." Moreover, he asserted that globalization affects growth through economic, political, cultural, and social channels. Therefore, as a multi-dimensional phenomenon, even the economic facet of globalization has different sub-divisions, such as commercial, labor, financial, and technological globalization. When the literature was analyzed there was no consensus about globalization's impact on the globe, but no country

in the world can operate efficiently without significant relationships with others (Didžgalvytė-Bujauské et al., 2019).

The liberal view of growth and development literature emphasized that globalization induces higher growth. According to this view, globalization provides commercial and investable opportunities for employment. Thanks to these opportunities, the levels of income equality and poverty decrease. This view, known as the “Washington Consensus,” is supported by supranational organizations, such as the World Bank (WB) and the International Money Fund (IMF) (Rao and Vadlamannati, 2011, p.795). These organizations suggested to their members during the 1980s and especially the 1990s the implementation of neo-liberal policies, and even imposed these policies on some of their members. This view and policy changes has accelerated the globalization process since that time.

Technological alterations, thanks to globalization, aid the integration of global financial markets, low costs of data processing, and the increase of investments and productivity. In this regard, globalization increases economic growth rates by contributing to optimal resource allocation and providing full employment (Kılıçaslan and Dumrul, 2018, p.117). However, globalization does not affect growth in all countries positively. Increasing competition and worsening conditions for domestic markets depend on this competitive environment, but a disparity caused by trade deficits, social injustice, and increased poverty trigger a reverse relationship between globalization and growth (Stiglitz, 2002; Stiglitz, 2004).

Globalization is basically the integration of capital, investment, and labor markets or integration with global markets (WTO, 2008). Since the globalization concept is multi-dimensional, this has caused the manifestation of different indices with separate components during its measurement (Eren and Cutcu, 2018, p.48). Various index calculations were used in the literature to measure globalization. The initiatives of Lockwood and Redoano (2005) with Andersen and Herbertsson (2005) are examples of these studies. While Lockwood and Redoano (2005)’s studies were based on economic, political, and social aspects of globalization, Andersen and Herbertsson (2005)’s studies were based on commercial, financial, and other political variables.

After the Kearny Foreign Policy (KFP) Globalization Index was developed for the first time, more indices appeared at intervals. The KOF Globalization Index is the one preferred by experts since it also includes political and social aspects of globalization. The "KOF Index" is accepted as the best to measure globalization, among other indices (Eren and Cutcu, 2018, p.48). Why the KOF Index is accepted as the most comprehensive to measure globalization is explained by De Soysa and Vadlamannati (2011, p.28):

- It can find political and social aspects that one or two-dimensional indices lack.
- KOF's economic globalization index brings together various economic indicators with "trade and investment restrictions," such as secret import limits, mean tariff rates, taxes on international trade, and capital account restrictions. No other index can approach the globalization issue as comprehensively as the KOF Index.
- The KOF globalization index is methodological.

This index was conceived by Axel Dreher in 2002 at the KOF Swiss Economic Institute (Caselli, 2012, p.46), and it was updated in 2007. It has been approached and analyzed as a globalization indicator in the studies since it includes economic, social, and political aspects of globalization (Ying, Chang and Lee, 2014, p.26-27). Since globalization is a multi-dimensional concept, it is divided into sub-indicators. For instance, while commercial liberalization, capital flows, and the financialization process are labeled as sub-indicators of economic globalization, tourism, internet usage, and international migration are qualified as sub-indicators of social globalization (Destek, 2020, p.33601). The political economic literature indicated that political globalization was related to economic globalization (De Haan, Lundstrom and Sturm, 2006, p.161). Recently, changes in the political environment, shifts in geopolitical arrangements, social mobilization, and conflicts about globalization have caused studies to heed the significance of the political aspect of globalization (Smith, Plummer and Hughes, 2017, p.7).

Globalization transcends basic increases in economic interactions, which also include cultural, military, political, and social aspects (McGrew, 2011, p.277). In

2018 more variables were added to the KOF Index, and the total number of variables increased from 23 to 43. This updated KOF Index provides a more detailed analysis compared to its previous version, and the aspects of this index are explained (Ying et al., 2014):

- Economic globalization is measured with the observation of information that accompanies market alterations alongside the long-distance flow of goods, capital, and services.
- When characterizing political globalization, a government policies' spread is also reviewed.
- Social globalization includes the spread of information, images, ideas, and culture.

Table 1 shows the structure, variables, and weights for the 2021 globalization index. The weights of the index values of economic, social, and political globalization for the overall index are shown in Table 1. According to these statistics, the weight of the three sub-globalization types in the globalization index is 33.3% of the overall index's weight. In terms of the analyzed variables, social globalization has the most variable numbers as a sub-globalization type and political globalization has the least variable numbers.

**Table 1: The Globalization Index-Structure, Variables and Weights (2021)**

<b>Globalization Index (de facto)</b>	<b>Weights</b>	<b>Globalization Index (de jure)</b>	<b>Weights</b>
<b>Economic Globalization (de facto)</b>	33.3	<b>Economic Globalization (de jure)</b>	33.3
Globalization of Trade (de facto)	50.0	Globalization of Trade (de jure)	50.0
Goods Trading	37.2	Trade Regulations	26.8
Service Trade	43.0	Trade Taxes	28.1
Trading Partner Diversity	19.8	Tariffs	27.1
		Trade Agreements	18.0
Financial Globalization (de facto)	50.0	Financial Globalization (de jure)	50.0
Foreign Direct Investment	26.3	Investment Restrictions	30.2
Portfolio Investment	16.7	Capital Account Openness	39.0
International Debt	28.6	International Investment Agreements	30.8
International Reserves	1.0		
International Income Payments	27.4		

<b>Social Globalization (de facto)</b>	33.3	<b>Social Globalization (de jure)</b>	33.3
Interpersonal Globalization (de facto)	33.3	Interpersonal Globalization (de jure)	33.3
International Telephone Traffic	20.7	Phone Subscriptions	39.1
Transfers	22.1	Freedom of Visit	32.4
International Tourism	21.1	International Airports	28.6
International Students	19.0		
Migration	17.2		
Globalization of Knowledge (de facto)	33.3	Globalization of Knowledge (de jure)	33.3
Internet Bandwidth Used	40.7	Television Access	37.7
International Patents	29.6	Internet Access	43.3
High-Tech Exports	29.6	Freedom of the Press	19.0
Cultural Globalization (de facto)	33.3	Cultural Globalization (de jure)	33.3
Cultural Goods Trade	28.6	Gender Parity	22.5
Personal Service Trading	24.8	Human Capital	41.7
International Trademarks	7.9	Civil Liberties	35.8
Mc Donald's Restaurants	22.0		
IKEA Stores	16.8		
<b>Political Globalization (de facto)</b>	33.3	<b>Political Globalization (de jure)</b>	33.3
Embassies	37.2	International Organizations	36.5
UN Peacekeeping Missions	24.7	International Agreements	32.6
International NGOs	38.2	Deel Partner Diversity	30.9

Source: KOF (2022b).

According to the KOF index and its sub-indices (economic, social, and political), the rankings of twenty countries are shown in Table 2. Following this data, the Netherlands is at the top spot in overall globalization, Singapore is at the top spot in economic globalization, Luxembourg is at the top spot in social globalization, and France is at the top spot in political globalization. The index values of European countries in globalization indices are generally higher. While Turkey is not in the top twenty of overall, economic, and social globalization, it is in the thirteenth spot of political globalization.

**Table 2: Rankings of the Top 20 Countries by KOF Globalization Index (2021)**

Overall Globalization			Economic Globalization		Social Globalization		Political Globalization	
Country Order	Country Name	Index Value	Country Name	Index Value	Country Name	Index Value	Country Name	Index Value
1	Netherland	90.91	Singapore	94	Luxembourg	90.97	France	97.99
2	Switzerland	90.45	Netherland	90	Monaco	90.55	Germany	97.72



3	Belgium	90.33	Belgium	89		90.16	İtalia	97.68
4	Sweden	89.44	Ireland	88	Switzerland	89.58	England	97.65
5	England	89.31	Luxembourg	88	Canada	89.35	Spain	96.85
6	Germany	88.73	Malta	87	Norway	89.34	Belgium	96.63
7	Austria	88.61	U.A.E.	87	England	88.71		96.59
8	Denmark	87.80	Switzerland	86	San Marino	88.62	Sweden	96.43
9	Finland	87.68	Estonia	86	Singapore	88.30		95.44
10	France	87.63	Denmark	85	China	88.02	Austria	95.27
11	Spain	85.87	Sweden	84	Australia	87.99	Finland	93.27
12	Ireland	85.75	China	84	Andorra	87.80	Portugal	93.25
13	Norway	85.40	Finland	84	Austria	87.53	Turkey	92.58
14	Portugal	85.22	Cyprus	84	Sweden	87.48	U.S.A.	92.51
15	Czechia	84.85	Austria	83	Germany	87.30	Russia	92.39
16	Canada	84.25	Czechia	83	Ireland	87.16	Canada	92.14
17	Hungary	83.83	Slovakia	82	U.S.A.	86.91	Denmark	92.10
18	Greece	83.65	Mauritius	82	Denmark	86.78	India	92.01
19	Singapore	83.47	Hungary	82	İsland	86.66	Greece	91.76
20	Luxembourg	82.98	Bahrain	82	New. Zealand	86.41	Egypt	91.48

Source: KOF (2022a).

### 3. The Empirical Literature

The origins of a globalization concept can be traced back to older times, but its actual usage began in the 1960s. Then, its use increased in the 1980s, and it became a vital concept frequently referred to by many groups in the 1990s (Aslan, 2013, p.8). In the 1990s a large amount of literature started to arise about globalization. In the beginning, there were many ideological discussions about the existence and impact of globalization so the literature was shaped in this vein. Few empirical studies were made about globalization because of the lack of data and the problem of how to measure it. Later, the empirical testing of globalization's economic and social impact was realized for the reasons mentioned (Hayaloglu, Kalayci, and Ertan, 2015, p.126). A significant increase in the number of conducted empirical studies about globalization happened in the second half of the 2000s.

The first studies about the impact of globalization (Sachs and Warner, 1995; Borensztein, De Gregorio and Lee, 1998; Kose, Prasad, Rogoff, and Wei, 2006; Fukase, 2010; Bozoklu and Yılançı, 2013) heeded the economic spect of

globalization, and they used macroeconomic variables, such as market openness, financial development, and foreign direct investments. The difficulty of measuring other aspects of globalization is another reason for this development. Sachs and Warner (1995)'s study reached the conclusion, from the 1970-1989 data of seventy-eight countries, that open economies grew approximately 2.45% more than closed economies. Borensztein et al. (1998)'s study detected that those foreign direct investments affected growth positively, but this condition depended on the labor capital of the country from which those investments were made. However, after the development of indices that included the social, political, and cultural aspects of globalization along with its economic aspect since the 2000s, a healthier analysis about the impact of globalization especially on economic growth has become easier to measure.

Dreher (2006)'s study was the first one that empirically analyzed the impact of globalization on growth by utilizing a globalization index. Dreher conceived and developed the KOF Index, and he researched the impact of globalization on economic growth with the 1970-2000 data of 123 countries. According to the results of his analysis by utilizing three indices, economic, social, and political, he reached the conclusion that globalization incentivizes economic growth, and political globalization does not have a considerable impact on economic growth in developed nations only. When later studies were examined, they were conducted by utilizing the panel data analysis on country groups. In addition, we found these studies concentrated on the impact of globalization on economic growth in one sample country. Some examples of these studies are Afzal (2007)'s Pakistan, Sato and Fukushige (2009)'s South Korea, and Nwakanma and Ibe (2014)'s Nigeria. These studies targeted developing countries, and they reached the conclusion that economic growth has a positive impact on economic growth.

Empirical studies on Turkey were emphasized in the literature during the last ten years. One of the first conducted studies was Ozel (2012)'s study that researched the impact of globalization with trade and financial deficits on economic growth with the monthly data of the 1991:1 and 2010:4 periods. According to the results of the study that utilized the Cointegration and the

Granger Causality analyses, there was a positive causal relationship between growth and trade deficits and a negative causal relationship between growth and financial deficits. Furthermore, the study detected a causal relationship between growth and financial deficits. Saritas (2017) analyzed the long-term relationship between the economic, social, and political globalization for the 1970-2013 period, and he reached the conclusion that overall globalization increased economic growth. Dogan (2017), Eren and Cutcu (2018), and Polat and Peker (2020)'s studies detected that there was a relationship between economic growth and globalization for different time periods. These studies researched the relationship between globalization and growth empirically using Turkey as the sample country. The selected studies that analyzed the relationship between globalization and growth in the literature are presented in Table 3.

**Table 3: The Studies Examining the Relationship Between Globalization and Economic Growth**

Study	Sample and Period	Method	Analysis Results
Villaverde ve Maza (2011)	101 Countries, 1970-2005	A Panel Data Analysis-GMM and LS Techniques	Globalization affected economic growth positively.
Rao ve Vadlamannati (2011)	21 African Countries, 1970-2005	A Panel Data Analysis-GMM and LS Techniques	Globalization's impact on economic growth is positive.
Chang, Lee and Hsieh (2011)	G7 Countries, 1970-2006	A Panel Data Analysis-Cointegration Relationship Detection	There was a long-term relationship between globalization and growth.
Meraj (2013)	Bangladesh, 1971-2005	The ARDL Bounds Test Approach	Globalization had a positive impact on economic growth.
Samimi and Jenatabadi (2014)	COMCEC Countries, 1980-2008	A Panel Data Analysis-GMM	Globalization had a considerable impact on growth.
Adesoye, Ajike and Maku (2015)	Nigeria, 1970-2013	The Cointegration and ARDL Bounds Test Approach	Market openness affected growth positively, according to the analysis results.

Kilic (2015)	74 Developing Countries, 1981-2011	LS Techniques and The Granger Causality Analysis	Economic and political globalization types affected growth positively, while social globalization affected growth negatively.
Suci, Asmara and Mulatsih (2015)	ASEAN, 2006-2012	A Panel Data Analysis	Economic and political globalization types affected growth positively, but social globalization affected growth negatively.
Manwa and Wijeweera (2016)	5 South African Continent Countries, 1980-2011	The ARDL Bounds Test Approach	Globalization had a positive impact on economic growth.
Dogan and Can (2016)	South Korea, 1970-2012	The Engel-Granger Cointegration	Three separate aspects of globalization affected growth positively.
Turedi (2016)	40 Countries, 1996-2014	The Driscoll-Kraay Standard Error Fixed Effects Model	Globalization and globalization's sub-components had a positive impact on growth.
Kaurin and Simic (2017)	Central and East European Countries, 1993-2013	A Panel Data Analysis	Globalization had a positive impact on growth. Social and political globalization variables were not statistically significant.
Maduka, Madichie, and Eze (2017)	Nigeria, 1970-2015	The ARDL Bounds Test Approach	Market openness had a positive impact on Nigeria's economic growth.
Zahonogo (2018)	42 Sub-Saharan African Countries, 1980-2012	A Panel Data Analysis	There was no linear relationship between globalization and economic growth.
Hossain, Kibria and Islam (2018)	Bangladesh, 1986-2016	The ARDL Bounds Test Approach	Market openness had a positive impact on economic growth in the long-term.
Coulibaly, Erbao and Mekongcho (2018)	BRICS Countries, 2002-2013	A Panel Data Analysis	Globalization and entrepreneurship affected growth positively.
Tekbas (2019)	BRICS-T Countries, 1990-2014	The Pedroni Kao Cointegration, The FMOLS Estimated Panel Causality	There was a one-way relationship from globalization to growth. Globalization and capital accumulation had a positive impact on national income.
Apaydin (2019)	Turkey, 1970-2016	The Johansen-Juselius Cointegration	Financial and commercial globalization had a lasting and negative impact on economic growth.
Radulović and Kostić (2020)	EU Countries, 1970-2016	A Panel Data Analysis	Economic globalization had a positive impact on growth in the long-term.

Celik and Unsur (2020)	88 Countries, 2000-2016	A Panel Causality Test	There was a significant relationship between growth and globalization, as well as globalization's sub-components.
Saygin (2021)	E7 Countries, 1990-2018	A Panel Data Analysis	Overall, political, and economic globalization had a positive impact on growth. Moreover, social globalization did not have a significant impact on growth.
Kofoglu (2022)	Turkey, 1970-2018	The Engle-Granger Cointegration, Toda-Yamamoto Causality	Cointegration was determined between globalization and economic growth. There was a two-way causality between overall globalization and economic growth.

As seen in the table, conducted empirical studies reached the conclusion that globalization has a positive impact on growth. However, there were also studies that could not find a significant relationship between two variables or, instead, found a negative relationship between growth and globalization's sub-components. Therefore, the obtained results show divergences depending in which utilized variable were used as an indicator of globalization, the sample country or country groups where the analysis was made, or the data belonging to specific periods.

#### 4. The Empirical Analysis

General information about data sets and the ARDL Bounds Test that was applied after the stationary analysis is given in this section under the topic of empirical analysis. Then, the ARDL model results are interpreted with a theoretical basis.

##### 4.1. Data

Information about the explanation of variables in the study and how they were obtained is given in Table 4. The table shows that the yearly data of Turkey's 1970-2018 period for empirical analysis were used. The dependent variable, per capita income, independent variables, inflation rates and external debt ratio to

national income, were taken from the World Bank. The data of globalization indices were taken from the KOF Swiss Economic Institute.

**Table 4: Variables' Definition**

Variables	Explanation	Source
$PGDP_t$	Per Capita Income	World Bank
$KOF_t$	Overall Globalization Index	KOF Swiss Economic Institute
$EKOF_t$	Economic Globalization Index	KOF Swiss Economic Institute
$SKOF_t$	Social Globalization Index	KOF Swiss Economic Institute
$PKOF_t$	Political Globalization Index	KOF Swiss Economic Institute
$INF_t$	Inflation Rate	World Bank
$TEXDBTG_t$	External Debt National Income Ratio	World Bank

Source: World Bank (2021), KOF (2021)

## 4.2. Stationary Analysis

Since alterations in the variables depended on a random process in empirical analysis toward a time series, a stationary analysis became a basic condition for these analyses (Maddala and Lahiri, 2009, p.482). Although there are two types of methods, graphical and statistical, to test whether the data was stationary, the unit root tests were more frequently used than statistical methods (Johnston and Dinardo, 1997, p.215).

According to the hypothesis of  $\delta=0$  from the stationary test estimations, if the  $\delta$  calculation value is higher than the McKinnon probability value, the  $H_1$  hypothesis is accepted, and no unit roots are found. In this situation, the data is accepted as stationary. However, if the  $H_0$  hypothesis is accepted, there are indeed unit roots in the data. In this situation, the data is confirmed as not stationary (Gujarati, 2003, p.815).

In this study, three traditional unit root tests for stationary analyses were used: the Dickey-Fuller (1979) unit root test, and fractional unit root tests, the Perron (1989), and the Zivot-Andrews (1992). While the Perron (1989) unit root test is an exogenous fractional root test, and its fraction time is known, the Zivot-Andrews (1992) test is an endogenous unit root test, and its fraction time is unknown (Zivot and Andrews, 1992, p.40). The unit root test results following the variables' stationary analyses are given in Table 5.

Table 5: Unit Root Tests Results

Variables	Unit Root Tests	Perron (1989)	ADF (1979)	Z&A (1992)
PGDP	Model	Model C	Constant and Trend	Model C
	Test	-4,862	-2,04	-3,71
	Probability	0,10	0,56	-
	Break Date	2000	-	1999
D(PGDP)	Model	Model A	Constant	Model A
	Test	-7,32	-6,67	-6,93**
	Probability	0,00**	0,00**	-
	Break Date	2009	-	2003
KOF	Model	Model C	Constant and Trend	Model C
	Test	-2,82	-1,62	-2,85
	Probability	0,98	0,76	0,19
	Break Date	2006	-	2007
TKOF	Model	Model A	None	Model A
	Test	-2,33	-1,70	-3,27
	Probability	0,94	0,08*	-
	Break Date	2014	-	1991
D(KOF)	Model	Model A		Model A
	Test	-7,82**		-7,69**
	Probability	0,01**		-
	Break Date	1994		1983
EKOF	Model	Model C	Constant and Trend	Model C
	Test	-6,05	-1,59	-4,22
	Probability	0,01*	0,78	-
	Break Date	1993	-	1994
D(EKOF)	Model		None	Model A
	Test		-7,45**	-9,15**
	Probability		0,00**	-
	Break Date		-	1996
SKOF	Model	Model C	Constant and Trend	Model C
	Test	-3,33	-2,36	-3,01
	Probability	0,88	0,38	-
	Break Date	2004	-	2005
TSKOF	Model	Model A	Constant	Model A
	Test	-5,73	-4,69	-4,97*
	Probability	0,01*	0,00*	-
	Break Date	2006	-	2007
PKOF	Model	Model C	Constant and Trend	Model C
	Test	-5,03	-1,38	-4,40
	Probability	0,07*	0,85	-
	Break Date	2007	-	1991

<b>D(PKOF)</b>	Model		None	Model A
	Test		-2,12**	-9,74**
	Probability		0,03**	-
	Break Date			1983
<b>INF</b>	Model	Model A	None	Model A
	Test	-3,29	-1,06	-3,90
	Probability	0,50	0,25	-
	Break Date	2001		2002
<b>D(INF)</b>	Model	Model A	None	Model A
	Test	-7,84**	-7,57**	-8,03**
	Probability	0,00**	0,00**	-
	Break Date	1988		1995
<b>EXDBTG</b>	Model	Model C	Constant and Trend	Model C
	Test	-3,32	-2,27	-3,43
	Probability	0,88	0,43	-
	Break Date	1984		2003
<b>TEXDBTG</b>	Model	Model B	Constant	Model A
	Test	-4,59	-3,10	-4,82*
	Probability	0,05*	0,03*	-
	Break Date	2002		2003

**Note:** Critical values according to Perron (1989) (Breakpoint) unit root test; in Model A, %1: -4,949, %5: -4,443 and %10: -4,193; in Model B and %1: -5,067, %5: -4,524 and %10: -4,261. in Model C: %1: -5,71, %5: -5,17 and %10: -4,893. Critical values according to ADF (1979) unit root test; in constant: %1: -3,57, %5: -2,92 and %10: -2,59. In constant + trend model %1: -3,994, %5: -3,427, %10: -3,137. In no constant + no trend model %1: -2,573, %5: -1,942 and %10: -1,615. Critical values according to Z&A (1992) Model A: %1: -5,34, %5: -4,93 and %10: -4,58. Model C: %1: -5,57, %5: -5,08 and %10: -4,82. \* stationary data at the level. \*\*data made stationary by differencing. Optimal lag lengths were determined according to Akaike and Schwarz information criteria.

In Table 5, variables in the study were analyzed with three different unit root tests. According to these tests, the series were stationary in the levels of I(0) or (1). The cointegration relation on the structure was also evaluated with The ARDL Bounds Test method.

### 4.3. The ARDL Bounds Test Approach

Since all variables in the study were not stationary at the same levels, cointegration tests, such as the Johansen and Engle-Granger tests, could not be applied. Even though the series were not co-integrated at the same levels, whether they were co-integrated could be tested with the ARDL method (Guris, Caglayan and Cakir Zeytinoglu, 2016). Model (2) and others in the Basic ARDL Model;



$$Y_t = \partial_0 + \partial_1 X_t + \partial_2 Z_t + e_t \quad (1)$$

$$\Delta y_t = \partial_0 + \sum_{i=1}^p \beta_i \Delta y_{t-i} + \sum_{i=0}^p \delta_i \Delta x_{t-i} + \sum_{i=0}^p \lambda_i \Delta z_{t-i} + a_1 y_{t-1} + a_2 x_{t-1} + a_3 z_{t-1} + u_t \quad (2)$$

$$\Delta y_t = \partial_0 + \sum_{i=1}^p \beta_i \Delta y_{t-i} + \sum_{i=0}^p \delta_i \Delta x_{t-i} + \sum_{i=0}^p \lambda_i \Delta z_{t-i} + u_t \quad (3)$$

While  $\partial$ ,  $\beta$ ,  $\alpha$ , and  $\lambda$  symbols represent variables' coefficients in the above equation,  $e$  and  $u$  demonstrate error terms. Pesaran, Shin and Smith (2001) presented the ARDL bounds test method, so the best model among other models should be decided first in an analysis (Pesaran et al., 2001, p.289,326). When deciding on this model, it was significant to choose a model that included minimum information criteria with minimum coefficients by equating  $(p + 1)^k$  and taking information criteria, such as Akaike and Schwarz, into consideration. While the proper delay count is  $p$ , the variable number is  $k$  in this process. When the F test or the bounds test is applied to the best model, if the absence hypothesis is rejected, there is a long-term co-integrated relationship between the series in the model. Therefore, we concluded that there was a long-term co-integrated relationship between the  $x$ ,  $y$ , and  $z$  variables. In conclusion, there was no problem with equating stationary variables at different levels and regression models (Shresta, 2006, p.1-9). The basic ARDL (2, 3, 3, 2, 3, 0, 3) model's coefficient estimations are given in Table 6.

**Table 6: The ARDL Model Estimation Results**

Variables	Coefficients	Standard Error	t-Statistical	Probability
PGDP(-1)	0.963710	0.144784	6.656185	0.0000
PGDP(-2)	-0.224656	0.141714	-1.585270	0.1260
SKOF	0.015815	0.007169	2.206001	0.0372
SKOF(-1)	0.010506	0.009585	1.096148	0.2839
SKOF(-2)	0.012423	0.008538	1.454961	0.1586
SKOF(-3)	0.006153	0.004198	1.465658	0.1557
EKOF	0.007558	0.006237	1.211688	0.2374
EKOF(-1)	0.017614	0.007100	2.480655	0.0205
EKOF(-2)	0.016040	0.006523	2.458865	0.0215
EKOF(-3)	0.008644	0.003436	2.515619	0.0190
KOF	-0.035190	0.017839	-1.972686	0.0602
KOF(-1)	-0.041074	0.020937	-1.961736	0.0615

KOF(-2)	-0.039706	0.016695	-2.378260	0.0257
PKOF	0.005514	0.006735	0.818656	0.4210
PKOF(-1)	0.017228	0.007233	2.381768	0.0255
PKOF(-2)	0.019327	0.005703	3.389136	0.0024
PKOF(-3)	-0.011396	0.002774	-4.107869	0.0004
INF	-0.000380	0.000289	-1.313124	0.2016
TEXDBTG	-0.001800	0.001201	-1.498899	0.1469
TEXDBTG(-1)	0.001604	0.001457	1.101294	0.2817
TEXDBTG(-2)	-0.002826	0.001471	-1.920986	0.0667
TEXDBTG(-3)	0.001201	0.001171	1.025541	0.3153
C	2.155239	0.697200	3.091279	0.0050

In Table 6, the parameters of the PKOF, EKOF, and KOF variables from the coefficients of the ARDL delayed estimation model were statistically significant, and especially the delayed values of the economic globalization coefficient had a positive impact on growth. The F-bounds test results are given in Table 7.

**Table 7: The F-Bounds Test Results**

Test Statistic	Test Value	k
F-Test Statistic	3.722865	6
Critical Values		
Significance	Lower Bounds (I0)	Upper Bounds (I1)
10%	2.12	3.23
5%	2.45	3.61
2.5%	2.75	3.99
1%	3.15	4.43

In Table 7, according to the statistics from the bounds test, there was a long-term co-integrated relationship in the 5% and 10% significance levels between the variables, and there was a statistically significant long-term relationship between the series. According to these results, the globalization indices, inflation, and external debt variables had a long-term co-integrated relationship with economic growth. This condition demonstrated that economic stability, together with global capital flows, played a considerable and vital role in the economic growth of national economies in the long term. The short and long-term coefficient results and error recovery coefficients, along with the ARDL model's structure of cointegration relations, are given in Table 8.

**Table 8: The ARDL Model Cointegration Form,  
The Short and Long-Term Coefficients**

The Dependent Variable:		PGDP Selected Model: ARDL(2, 3, 3, 2, 3, 0, 3)		
Sample: 1970 2019		Included observations: 47		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(PGDP(-1))	0.224656	0.141714	1.585270	0.1260
D(SKOF)	0.015815	0.007169	2.206001	0.0372
D(SKOF(-1))	-0.012423	0.008538	-1.454961	0.1586
D(SKOF(-2))	-0.006153	0.004198	-1.465658	0.1557
D(EKOF)	0.007558	0.006237	1.211688	0.2374
D(EKOF(-1))	-0.016040	0.006523	-2.458865	0.0215
D(EKOF(-2))	-0.008644	0.003436	-2.515619	0.0190
D(KOF)	-0.035190	0.017839	-1.972686	0.0602
D(KOF(-1))	0.039706	0.016695	2.378260	0.0257
D(PKOF)	0.005514	0.006735	0.818656	0.4210
D(PKOF(-1))	-0.019327	0.005703	-3.389136	0.0024
D(PKOF(-2))	0.011396	0.002774	4.107869	0.0004
D(INF)	-0.000380	0.000289	-1.313124	0.2016
D(TEXDBTG)	-0.001800	0.001201	-1.498899	0.1469
D(TEXDBTG(-1))	0.002826	0.001471	1.920986	0.0667
D(TEXDBTG(-2))	-0.001201	0.001171	-1.025541	0.3153
ECT	-0.260946	0.093178	-2.800497	0.0099
The Short-Term Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.155239	0.697200	3.091279	0.0050
SKOF(-1)	0.044896	0.016251	2.762624	0.0108
EKOF(-1)	0.049856	0.016323	3.054245	0.0055
KOF(-1)	-0.115969	0.043174	-2.686067	0.0129
PKOF(-1)	0.030674	0.013089	2.343540	0.0277
INF	-0.000380	0.000289	-1.313124	0.2016
TEXDBTG(-1)	-0.001822	0.001342	-1.357921	0.1871
PGDP(-1)	-0.260946	0.093178	-2.800497	0.0099
The Long-Term Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SKOF	0.172052	0.048888	3.519284	0.0018
EKOF	0.191058	0.059699	3.200339	0.0038
KOF	-0.444419	0.145909	-3.045854	0.0056
PKOF	0.117548	0.041550	2.829092	0.0093
INF	-0.001455	0.001434	-1.015169	0.3202
TEXDBTG	-0.006981	0.005654	-1.234812	0.2289
C	8.259342	0.403698	20.459191	0.0000

$$ECT = PGDP - (0,17 * SKOF + 0,19 * EKOF - 0,44 * KOF + 0,11 * PKOF - 0,001INF - 0,007 * TEXDBTG + 8,25) \quad (4)$$

In Table 8, the short and long-term coefficients of all the globalization indices were statistically significant. Also, the short and long-term coefficients of inflation and external debt variables were statistically insignificant. Moreover, it presented the error recovery coefficient (ECT) was negative and statistically significant. The fact that this coefficient was  $-0.26(1/0.26)$  demonstrated that the short-term impact of changes to the independent variables in the model created a deviation effect on the dependent variable that could be eliminated after 3.84 years. This estimation demonstrates the generated imbalances in economic growth by the globalization indices, inflation, and external debt variables that could balance these issues in the long-term. This result demonstrated that globalization, economic stability, and external debt were effective in the economic growth of national economies.

Diagnostic tests (identification errors, autocorrelation, heteroscedasticity, and normality) toward the ARDL bounds test model and the  $R^2$  and F test results are given in Table 9.

**Table 9: The ARDL Model Diagnostic Tests**

$R^2$	Ramsey Reset	LM (1)	White	F	Jarque Bera
0,78	Probability	Probability	Probability	Probability	Probability
	0,42	0,18	0,10	0,00	0,71

According to Table 9, the ARDL model's diagnostic tests were significant. Finding the  $R^2$  value as 0.78 in the analysis demonstrated that the alterations of independent variables' power to explain dependent variables' alterations in the model were medium-level high. Likewise, the F test of the model being significant showed that the coefficients of variables in the study and the model were significant. The basic hypothesis of the Ramsey RESET test indicates that there are no identification errors in the model. When the probability values (0.42) of test statistics are examined, we see that this basic hypothesis cannot be rejected. Therefore, we can deduce and understand that there are no specification (identification) errors in this model (Ramsey, 1969, p.350-371). In addition to this test, the LM test, a widely used autocorrelation test, was used. The LM (1) test statistics being as 17% and higher than 5% indicates that the model has no first-

degree autocorrelation problems. While the autocorrelation problem shows whether error terms in the model have a relationship, the model had no such relationship (Breusch and Godfrey, 1978).

Furthermore, the White Test, a heteroscedasticity test in the literature, was also included in the study. Heteroscedasticity is a diagnostic problem that emerges because of the breakdown of the constant variance hypothesis in models, but the White Test statistics of 10% and higher than 5% in the model indicates that there is no diagnostic problem of heteroscedasticity (White, 1980, p.817-838). The Jarque-Bera test was applied to analyze normality. Normality states the compliance of data in the studies to the normal distribution. The test value of 71% and higher than 5% shows that the diagnostic condition of the data's normal distribution is met (Jarque and Bera, 1980, p.255-259).

The economic impact of globalization, especially its impact on national income, is presented with the obtained results of the study. In addition, it also presented that inflation and external debt, representing economic stability, had no impact on economic growth. The impact of globalization on a country's economic growth and its national economy emerged as a salient factor for policymakers that cannot be disregarded. It was especially confirmed for Turkey, the sample country of the study, that global capital and monetary movements had importance in increasing economic growth and economic stability.

## **5. Conclusion**

Globalization has significantly affected all countries for 20-30 years. This study analyzed the impact of globalization with its various aspects on Turkey's economic growth empirically. The dataset covered the period from 1970-2018, and the ARDL bounds test was used as an econometric methodology. While the per capita income's increase was selected as an indicator of the economic growth, economic, social, political, and overall globalization indices, the inflation and external debt ratio to national income were utilized as the determinants of the per capita income's increase in the study's model.

According to the empirical analysis results of the study, we detected that all the variables in the study were co-integrated in the long term by utilizing the ARDL bounds test method and its results. All the variables that were utilized, and being at the I(0) and I(1) stationary levels in all stationary tests aided this conclusion. This conclusion parallels with the other studies in the literature. Moreover, it was estimated that the deviations in national income that globalization index values, inflation, and external debt ratio to national income variables' alterations created in the short-term could reach a balance after 3.84 years in the long-term. We reached the conclusion that the short and long-term coefficients of all the variables of globalization indices in the study had significance. In this regard, the results of this study overlapped with the results of other studies, such as Turedi (2016), Dogan and Can (2016), and Saritas (2017)'s studies. However, we also concluded that the coefficients of inflation and external debt variables were not statistically significant in terms of the ARDL bound test's short and long-term coefficients.

When globalization's impact on the positive contributions to economic dynamism, market opportunities, and active competitive environment are contemplated, especially from an economic angle, how it affects economic growth positively is the expected result. Thus, it has become even more essential for policymakers to utilize economic policies to increase and sustain growth. Rising national economies' integration with the world economy will strengthen the positive impact of globalization on their economy. Solidifying the economic, financial, and institutional structure of a country will contribute positively to the integration process as well. Finally, politically developing relations with other world nations and socio-culturally acting like a member of an international community will pave the way for Turkey to improve its economic and commercial relations as well.

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**Ethics Committee Approval:** Ethics committee approval is not required for this study.

**Author Contributions:** Conception/Design of Study- H.Ç., H.E.T., S.E.; Data Acquisition- H.E.T., S.E.; Data Analysis/ Interpretation- H.Ç., H.E.T., S.E.; Drafting Manuscript- H.Ç., H.E.T., S.E.; Critical Revision of Manuscript- H.Ç., S.E.; Final Approval and Accountability- H.Ç., H.E.T., S.E.

**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The authors have no conflict of interest to declare.

**Grant Support:** The authors declared that this study has received no financial support.

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RESEARCH ARTICLE

## Determining the Criteria Affecting Tax Ethics in Türkiye Using the Fuzzy DEMATEL Method

Burcu KUZUCU YAPAR<sup>1</sup> , Abdulkadir KESKİN<sup>2</sup> 

### ABSTRACT

Tax ethics, which ensure that taxpayers pay taxes voluntarily and with an internal motivation, and enhancing tax ethics is crucially important for increasing tax revenues and preventing informalities. In order to enhance the level of tax ethics among taxpayers, the issues that affect tax ethics must first be determined. In this context, the main purposes of this study are to determine and evaluate the criteria that determine tax ethics in Türkiye and to specify which criteria are more important. In this scope, the study includes 6 main criteria and 32 sub-criteria involving psychological and sociological, economic, social capital, political, institutional and administrative, and demographic criteria for determining tax ethics. The study evaluates these criteria using paired comparisons performed by experts with at least 10 years of professional experience in the field. The study uses the Fuzzy Decision Making Trial and Error Laboratory method in line with the data obtained from the expert assessments to analyze the relationships among the criteria affecting taxpayers' tax ethics. As a result of the application, the study calculates the threshold values for each of the main criteria. According to the obtained results, the study has determined the economic criteria to affect tax ethics the most in Türkiye, with political psychological, and sociological criteria standing out as the second and third most important criteria and social capital being the criteria that affect tax ethics the least.

**Keywords:** Tax ethics, Determinants of tax ethics, Multi-criteria decision making, Fuzzy DEMATEL method

**JEL Classification:** H20, H29, C44



DOI: 10.26650/ISTJECON2023-1266112

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**Submitted:** 16.03.2023

**Accepted:** 19.10.2023

**Citation:** Kuzucu Yapar, B. & Keskin, A. (2023). Determining the criteria affecting tax ethics in Türkiye using the Fuzzy DEMATEL method. *İstanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 745-780.

<https://doi.org/10.26650/ISTJECON2023-1266112>



## 1. Introduction

Tax ethics concern the voluntary payment of taxes through internal motivation without any external compulsion, coercion, or threat of punishment. The definition of tax ethics uses the concept of ethics not as a philosophical or theological concept but in the sense of revealing common virtuous attitudes. Tax ethics is more than just a theoretical concept, and the level to which taxpayers and society have tax ethics will positively or negatively impact many issues. The largest impact occurs on public revenues remitted to the Treasury, with low tax ethics levels resulting in taxes not being collected fully or on time. Remitting taxes late to the Treasury will create the problem of monetary erosion, especially in inflationary economies. Taxpayers with low tax ethics may be reluctant to pay their taxes voluntarily and resort to avoiding and evading taxes. If evading or avoiding taxes becomes a social norm, it will lead to undesirable consequences for the government budget. Reducing the cost of tax collection is another important aspect of tax ethics. Expenditures from the government budget for tax collection activities, especially audit expenditures, will be high in societies with low tax ethics.

In order to prevent the negative consequences of low tax ethics, the level of tax ethics should be enhanced by starting with taxpayers. Having the full and timely payment of taxes become a social norm among taxpayers will increase the level of tax ethics in society. The fact that tax fraud and informality are not tolerated, and those who resort to these methods are excluded from their social environment will induce individuals to shift their activities to the formal sector. In accordance with the importance of raising tax ethics, the aim of this study is to identify the criteria that affect the tax ethics of individuals and society and to determine which criteria are more important in line with experts' opinions. With this determination, to be carried out by using the fuzzy DEMATEL method, it is aimed to contribute to the enhancement of tax ethics among individuals and society, with a particular focus on these criteria, especially for policy-makers.

The Fuzzy Decision Making Trial and Evaluation Laboratory (DEMATEL) method is one of the multi-criteria decision-making methods and allows to

determine the level of interaction between complex criteria and to determine the degree of importance of the criteria. In different fields of social sciences, the fuzzy DEMATEL method is used in various decision-making studies. However, this method has not been used before in areas related to public finance. It is thought that the study stands out for this feature and will contribute to the literature. To extend the literature, new applied studies can be conducted by determining different criteria in future studies. The fuzzy DEMATEL method can also be applied to select a main criterion and rank its sub-criteria in order of importance. It is also possible to evaluate the criteria and practice selected in this study with experts with professional experience in different areas of tax law.

The study, which aims to determine the level of interaction of the criteria affecting tax ethics in Türkiye and to establish their order of importance, consists of three main parts. The first part of the study provides basic information on the concept of tax ethics. In the second part, the main and sub-criteria of tax ethics are analyzed. The third part of the study consists of methodology and results. In the conclusion, recommendations are made to administrators and policy-makers to increase tax ethics.

## **2. Tax Ethics**

Tax ethics is the voluntary payment of taxes through internal motivation without any external compulsion, coercion, or threat of punishment (Aktan, 2020, p. 147). It is also possible to define tax ethics as the degree of fulfillment of tax obligations. In line with this definition, the complete fulfillment of tax obligations indicates that tax ethics is also complete (Şenyüz, 1995, p. 33-34). The definition of tax ethics uses the concept of ethics not as a philosophical or theological concept but in the sense of revealing common virtuous attitudes (Tuay and Güvenç, 2007, p. 23). The terms tax ethics and tax morality are used almost interchangeably in the literature (Yurdakul, 2013, p. 6). In this study, the concept of tax ethics is preferred.

In societies where tax ethics are not sufficiently developed, some reactions to taxation occur. Due to these reactions, which can be listed as tax avoidance, tax

evasion, tax fraud, tax strike, tax refusal, tax shifting, and tax planning, it is possible to transfer financial activities carried out in the formal sector to the informal sector (Ömercioğlu, 2018, p. 38). Therefore, it is important to increase the level of tax ethics in the society. Moreover, the significant relationship between tax compliance and tax ethics makes tax ethics an important issue for policy-makers (Alexander and Balavac-Orlic, 2022, p. 1). In order to increase the tax ethics of taxpayers and society, the criteria that affect tax ethics need to be determined. After identifying these criteria, it will be possible for policymakers and administrators to develop and implement policies to enhance tax ethics.

### **3. The Criteria Affecting Tax Ethics**

Numerous criteria play a pivotal role in affecting tax ethics. These can be classified into various categories, such as psychological and sociological criteria, economic criteria, social capital criteria, political criteria, institutional and administrative criteria, and demographic criteria (Kitapçı, 2021, p. 141).

#### **3.1. Psychological and Sociological Criteria (K1)**

Psychological and sociological criteria, which are divided into sub-criteria such as the psychological limit of taxation and the reference groups surrounding taxpayers, are accepted as one of the criteria affecting the level of tax ethics of taxpayers.

##### **3.1.1. Psychological Limit of Taxation**

The level of tax rates and the extent to which they are perceived by taxpayers exert influence on their reactions to taxation, thereby influencing tax ethics. An increase in the total tax burden and the heightened perception of its impact lead to heightened reactions to taxation when the tax burden exceeds a certain psychological threshold. The psychological tax threshold is attained when the taxation level induces alterations in taxpayers' behavior, leading to adverse outcomes (Turhan, 1998, p. 198-199).



The first variable to be considered in determining the psychological limit of taxation is the tax burden. The tax burden, defined as the pressure experienced by taxpayers due to their tax payments, represents the ratio between taxes paid during a specific period and the income of the taxpayers making these payments (Aksoy, 2011, p. 270; Akdoğan, 2020, p. 509). In particular, a high perceived tax burden has a negative impact on tax ethics (Torgler, Demir, Macintyre and Schaffner, 2018, p. 335).

### **3.1.2. Reference Groups Surrounding Taxpayers**

Reference groups (family, friends, colleagues, etc.) affect the level of tax ethics among taxpayers. If unethical behavior is considered normal within the taxpayer's reference groups, it is expected that the taxpayer's level of tax ethics will be low. Likewise, the norms within the taxpayers' profession also affect their level of tax ethics. For example, within a professional group, behavior such as tax avoidance and tax evasion may be perceived positively or at least as normal. In such a context, a new member of the group may be inclined to normalize unethical behavior, driven by the desire for acceptance within the group (Serim, 2015, p. 153-154). Therefore, it is assumed that an increase in the level of tax ethics among the reference groups surrounding taxpayers will have a positive impact on the taxpayers' level of tax ethics.

## **3.2. Economic Criteria (K2)**

The sub-criteria within the economic criteria that affect tax ethics are tax rates, tax penalty rates, income levels, macroeconomic determinants, the love of money, and the informal economy.

### **3.2.1. Tax Rates**

Many studies examining the impact of tax rates on tax compliance have shown that higher tax rates tend to encourage tax evasion (Freire-Serén and Panadés, 2013, p. 815). It is also well-established that as tax rates increase, tax compliance and, consequently, tax ethics tend to decrease (Alm, Jackson, and McKee, 1992, p. 112). Moreover, taxpayers may respond differently to an increase in existing tax

rates. Some of these reactions are passive reactions, while others are active reactions. Examples of passive reactions are tax avoidance behaviors. Tax evasion is one of the active reactions to an increase in tax rates (Taşkın, 2010, p. 76-77). Hence, high or increased tax rates exert a negative effect on tax ethics.

### **3.2.2. Tax Penalty Rates**

It is widely acknowledged that high tax penalties have a positive effect on tax ethics when accompanied by rigorous audits. Conversely, high penalties that are not supported by audits have minimal influence on tax ethics (Kitapçı, 2021, p. 156). If tax penalties are to be used to encourage tax ethics, it is essential to carefully strike a balance, as excessively severe penalties can also have unintended and undesirable consequences. High tax penalty rates may motivate taxpayers to react against taxation and seek ways to avoid taxes (Çataloluk, 2008, p. 224). Consequently, when coupled with a rigorous tax audit system, high tax penalty rates can be expected to have a positive impact on tax ethics.

### **3.2.3. Income Levels**

While it is acknowledged that a relationship exists between income level and tax ethics, the exact direction of this relationship cannot be fully estimated. Taxpayers' income level may either positively or negatively affect their tax ethics, contingent on other factors such as their risk preferences and the applied income tax tariff. Nevertheless, it is generally observed that higher income levels tend to be associated with lower levels of tax ethics (Torgler, 2007, p. 35).

### **3.2.4. Macroeconomic Determinants**

Macroeconomic variables, including gross national product (GNP), inflation, unemployment, and income distribution can also affect tax ethics. The variables such as unemployment, inflation, and income distribution inequality tend to have a negative effect on tax ethics. Among these variables, income distribution affects tax ethics the most. It is widely argued that income inequality can lead to tax

evasion and a decline in tax ethics (Kitapçı, 2021, p. 159-160), as taxpayers who perceive themselves as receiving an inadequate share of the income distribution may view this as a justifiable reason for not paying taxes.

### **3.2.5. Love of Money**

It is possible that the desire to be wealthy and a love of money may drive some individuals to engage in unethical behaviors. Beyond general unethical behaviors, taxpayers who possess a strong desire for wealth and a love of money may also engage in specific unethical behaviors, such as tax avoidance and tax evasion. In fact, a study has found that the love of money has a negative effect on tax ethics. In other words, it is observed that as the desire for wealth and the love of money increase, tax avoidance behaviors tend to increase as well (Yayla, Özbek, Topal, and Cengiz, 2009, p. 71-72). Additionally, dissatisfaction with the current economic situation can also lead to similar behaviors. However, these factors are not easily influenced by external interventions aimed at increasing tax ethics.

### **3.2.6. Informal Economy**

It is possible to call all financial transactions and activities that are partially or totally unrecorded and unauditible, even if they are actually realized, as the informal economy (Sarılı, 2002, p. 32). It is accepted that there is a negative relationship between the informal economy and tax ethics. Accordingly, the informal economy is lower in countries with higher levels of tax ethics (Sandalcı and Sandalcı, 2017, p. 90). In addition, the intensity of unrecorded economic activities may lead to reluctance among individuals who pay their taxes regularly and thus to a decrease in tax ethics. The perception that other taxpayers are engaged in unregistered financial activities may cause taxpayers who continue their activities in the recorded area to want to move their activities to the unrecorded area. Therefore, it is possible to say that there is a bidirectional relationship between the informal economy and tax ethics (Ömercioğlu, 2018, p. 40-41). As it is necessary to reduce the informal economy in order to increase tax ethics, the way to reduce informality is through high tax ethics in society.

### **3.3. Social Capital Criteria (K3)**

Social capital criteria including social norms, tax justice, trust, tax culture, religion, and national pride are among the main criteria affecting tax ethics.

#### **3.3.1. Social Norms**

One of the issues that affect taxpayers' perceptions, attitudes and behaviors toward tax is social norms. Social norms are behavior patterns that should be shared by individuals and are sustainable depending on whether they are tolerated or not. The fact that paying or not paying taxes becomes a social norm in a society can direct the behavior of taxpayers living in that society (Kitapçı, 2021, p. 171-172). This is because taxpayers' tax payment behavior is influenced not only by disincentives such as tax penalties and tax audits but also by social norms (Torgler, 2007, p. 232). Therefore, in a society where paying taxes is established as a social norm, individuals' tax ethics will also be positively affected.

#### **3.3.2. Tax Justice**

Taxpayers' perceptions of tax justice play a pivotal role in shaping both tax ethics and tax compliance. Beyond general perceptions of tax justice, the assessment of whether the tax burden they bear is perceived as equitable or not also affects their tax ethics (Kaynar Bilgin, 2011, p. 270). If taxpayers perceive that the tax amount they are required to pay exceeds what they consider fair, they may regard tax evasion as a form of self-defense. Conversely, if they believe that the tax burden is equitably distributed, it becomes possible to reduce tax evasion tendencies (Torgler, 2007, p. 68).

#### **3.3.3. Trust**

Trust in government, especially in the tax administration and other government institutions, as well as in the legal system, enhances taxpayers' willingness to contribute by paying taxes (Torgler, 2007, p. 18). In other words, taxpayers'

positive perceptions of the government as an active agent of taxation and the level of trust in the government positively affect tax ethics (Kitapçı, 2021, p. 195-196). Therefore, in order to eliminate tax evasion tendencies of taxpayers, the trust of citizens in the state should be built among citizens. In order to achieve this, transparency and accountability in the taxation system should be emphasized (Alasfour, Samy, and Bampton, 2016, p. 157-158). In addition, trust in the head of state and other officials and the belief that other citizens also obey the laws positively affect tax ethics (Torgler, 2007, p. 24).

### **3.3.4. Tax Culture**

Tax culture is defined as the set of formal and informal institutions associated with the national tax system and practices which are deeply rooted in the historical fabric of the nation's cultural heritage (Nerre, 2008, p. 155). Tax culture constitutes one of the factors that enable individuals to feel intrinsically motivated to pay taxes. The interaction between tax law, politicians, academics, tax officials, experts, and taxpayers collectively shapes the dynamics of tax culture. Hence, variations in tax cultures among different nations also differentiate the level of tax ethics. For instance, a higher level of tax ethics in Northern European countries compared to Southern European countries and in Nordic countries compared to France, Italy, Spain, and Portugal can be partly attributed, in part, to the distinct tax cultures prevailing in these regions (Yurdakul, 2013, p. 48-50).

### **3.3.5. Religion**

Given that many religions command values such as honesty, truthfulness, and justice, a negative correlation between religiosity and criminal behavior is anticipated. As an extension of this negative relationship, one would expect a positive relationship between religiosity and tax ethics. Indeed, a study involving 500 participants in Malatya, Türkiye, revealed that individuals with lower levels of religiosity were more inclined to rationalize tax evasion for various reasons than their more religious participants (McGee, Benk, Yüzbaşı and Budak, 2020, p. 7). Nonetheless, there exist studies that reach different conclusions. A study

conducted in Lebanon, comprising 156 Christian and 135 Muslim participants, examined whether there is a relationship between individuals' tax evasion attitudes and their level of religiosity. Surprisingly, the findings revealed that religiosity was not a significant variable affecting attitudes toward tax evasion (Khalil and Sidani, 2020, p. 12). Consequently, it is not possible to fully determine the effect of religion on tax ethics. It appears that the relationship between religion and tax ethics varies from person to person and is also affected by other contributing factors.

### **3.3.6. National Pride**

National pride can be defined as the sense of pride that citizens hold for their country, nation, and society. According to one view, there exists a positive correlation between the intensity of individuals' national pride and their level of tax ethics. It is widely acknowledged that citizens' feelings of national pride tend to positively influence their willingness to pay taxes and their level of tax ethics (Kitapçı, 2021, p. 237).

## **3.4. Political Criteria (K4)**

The political boundary of taxes, the level of political trust in society, perceptions of public ethics, the prevailing democratic culture within society, and the extent of taxpayers' involvement in political decision-making processes are political criteria that positively or negatively affect tax ethics.

### **3.4.1. Political Limit of Taxes**

When setting tax policy, governments often consider the dual role of taxpayers as voters. The provision of expanded public services can potentially boost voter turnout, but the imposition of higher taxes to fund these services may conversely diminish it. These concerns of governments regarding potential voter backlash and electoral consequences delineate the political limit of taxes. The nexus between the political limit of taxes and tax ethics becomes evident when

governments, apprehensive about losing voter support, engage in unfair tax practices. For instance, a government that does not want to lose votes is likely to emphasize indirect taxes, which are less felt by individuals, to finance public services. It is difficult to talk about tax ethics in situations where the weight of indirect taxes surpasses that of direct taxes (Kitapçı, 2021, p. 237-238).

### **3.4.2. Political Trust**

Political trust, synonymous with the positive attitude of taxpayers towards the system, administration, and government, increases tax ethics. It is estimated that higher levels of political trust among taxpayers correspond to a greater willingness to fulfill their tax obligations. Conversely, when policymakers and administrators lack the trust of the citizens, tendencies toward behaviors such as tax avoidance and evasion are more likely to surface (Yurdakul, 2013, p. 42). Hence, it is imperative for authorities seeking to improve tax ethics within society to cultivate and maintain political trust.

### **3.4.3. Public Ethics**

Public ethics encompasses the ethical values and principles that govern the conduct of public officials in the formulation and implementation of policies and the delivery of public services. To engage in meaningful discourse on public ethics, it is imperative that public officials exhibit qualities such as impartiality, honesty, fairness, transparency, and accountability in the execution of their duties (Eryılmaz, 2016, p. 403). To elevate the level of tax ethics within a society, public ethics must first be ensured. In a societal context where public officials do not adhere to principles of public ethics, it becomes difficult to expect citizens to comply with tax ethics. Government intervention is necessary to enforce public ethics and, consequently, enhance tax ethics (Kitapçı, 2021, p. 241-242). Considering that public ethics constitutes a set of values that spreads from the upper echelons to the lower tiers of an organization, in order to ensure an ethical atmosphere in the public sector necessitates a top-down transformation. If senior managers set an example of ethical behavior for other public officials, and others

copy these ethical behaviors, these values have the potential to permeate the entire public sector. This situation will also increase public trust (Durmuş, 2017, p. 174). As trust in the public sector grows, taxpayers are more inclined to perceive tax payment as a civic duty rather than a burden.

#### **3.4.4. Democracy Culture**

There exists a significant correlation between the democratic culture and tax ethics. It is anticipated that the presence of a strong system of direct democracy in a country is associated with higher levels of tax ethics. Research indicates that nations with well-established traditions of direct democracy, such as the United States and Switzerland, tend to exhibit superior tax ethics compared to other countries (Torgler, 2007, p. 270). In countries with a well-established democratic culture, citizens have a say in determining the policies to be implemented, and therefore their compliance rates will be higher.

In addition to general policies, the fact that citizens have an active role in determining tax policies is also an influential factor that enhances tax ethics. Citizens will be less likely to react to taxes that they initially approve, and their compliance will be increased and tax ethics will be improved (Tosuner and Demir, 2009, p. 12).

#### **3.4.5. Involvement in Political Decision-Making Processes**

The observation that countries with well-established democratic traditions have relatively high tax ethics offers valuable insights. Enhancing the culture of democracy and the involvement of individuals in the political process may be useful to increase the tax ethics of the society. When individuals actively participate in the political process and perceive their preferences as adequately represented, their identification with the state is strengthened and their willingness to pay taxes heightens (Alm and Torgler, 2006, p. 243). Numerous studies have consistently identified a strong and directly proportional relationship between political participation and tax ethics (Yurdakul, 2013, p.



54). The greater the extent to which taxpayers engage in political processes and perceive that their preferences are taken into account, the higher their levels of tax ethics tend to be.

### **3.5. Institutional and Administrative Criteria (K5)**

Sub-criteria including taxation ethics, governance structures of states, tax bureaucracy, the quality and efficiency of tax administration, tax compliance policies, tax amnesties, the efficiency of tax audit, and perceptions of corruption collectively form institutional and administrative criteria.

#### **3.5.1. Taxation Ethics**

It is imperative that the taxation process is constructive rather than destructive. In consideration of the continuity of the taxation relationships, it is important to establish a proper and mutually respectful relationship with taxpayers. This type of rapport between taxpayers and the tax administration, situated within an institutional framework, is referred to as taxation ethics. Taxation ethics is one of the crucial extrinsic motivators for ensuring tax ethics (Kitapçı, 2021, p. 248-249). It is widely held the establishment of taxation ethics, coupled with fostering proper relations with taxpayers will reduce their tax evasion and tax avoidance decisions.

#### **3.5.2. Governance Structure of State**

It is widely accepted that the governance structure of a state also exerts influence on tax ethics. It is assumed that countries with a centralized governance structure tend to have lower levels of tax ethics compared to countries with a decentralized governance structure (Kitapçı, 2021, p. 249). Where indigenization is high and local government powers are strengthened, the interaction between citizens and administrators increases. This interaction and proximity increase citizens' trust. In other words, decentralization brings the government closer to the people (Torgler, 2007, p. 154) and positively affects tax ethics.

### **3.5.3. Tax Bureaucracy: Complexity of the Tax System**

The concept of taxpayers' capacity to comprehend and adhere to tax legislation is commonly referred to as tax complexity (Üyümez, 2016, p. 77). Tax complexity is a taxation issue that adds intricacies to the tax compliance process and augments tax compliance costs (Zeren, 2019, p. 162). Complexity within the tax system also creates tax revenue losses. Compliance with regulations that are not properly understood creates difficulty. Intense tax bureaucracy, tax complexity, and disjointed and unconnected laws are likely to contribute to tax revenue losses and tax evasion (Karakoç, 2004, p. 104-105). Hence, policymakers should address tax system complexity as a criterion that negatively affects tax ethics.

### **3.5.4. Quality and Efficiency of Tax Administration**

An effective tax system requires an equally effective and high-quality tax administration. The quality and efficiency of tax administration are important external factors in ensuring tax ethics. The effectiveness and quality of tax administration are directly proportional to the success of tax policies (Kitapçı, 2021, p. 255). Effective tax policies and practices, in turn, contribute to enhanced tax compliance and tax ethics.

The effectiveness of the tax administration is also important in terms of discouraging taxpayers who engage in illegal behavior. It is not only necessary but also obligatory to respond effectively to taxpayers involved in such activities in order to ensure tax ethics (Karakoç, 2004, p. 111).

Another gauge of the effectiveness of tax administration is the behavior of its officers toward taxpayers. As per a study, the manner in which taxpayers are treated undeniably influences tax ethics. Failure to treat the taxpayer with respect can create an intrinsic motivation not to pay taxes. For instance, the treatment of a taxpayer who has unintentionally made an error on their tax declarations as if they were guilty can have a negative impact on tax ethics. Contacting the taxpayer, affording them an opportunity to explain, and treating them with respect can encourage them to behave like an honorable taxpayer (Feld and Frey, 2002, p. 24-26).

### **3.5.5. Tax Compliance Policies**

Government-implemented tax policies may have the unintended consequence of reducing tax compliance or tax ethics. To avoid such an outcome, efforts should be made to minimize tax compliance costs (Kitapçı, 2021, p. 257). Diminishing tax compliance costs will facilitate tax compliance of taxpayers and increase their level of tax ethics. Therefore, it is accepted that there is a positive relationship between tax compliance policies and tax ethics.

### **3.5.6. Tax Amnesties**

Tax amnesties exert a negative psychological impact on law-abiding taxpayers and create an expectation of future amnesty opportunities, thereby exerting a negative influence on tax compliance and tax ethics (Savaşan, 2006, p. 49). Furthermore, tax amnesties undermine taxpayers' beliefs in the existence of tax justice (Özgüdenli, 2018, p. 43). The perception of unfair taxation negatively impacts the tax ethics of taxpayers and encourages informality. Therefore, policymakers should also consider the adverse consequences of tax amnesties that are introduced for their various advantages.

### **3.5.7. Effectiveness of Tax Audit**

Taxpayers' tax ethics are affected by the tax audit activities conducted by tax administrations. The effectiveness of tax audits and taxpayers' awareness of the potential for future audits can significantly impact their tax compliance (Koç, 2018, p. 285). The effectiveness of tax audits will also positively affect the level of tax ethics of taxpayers in connection with tax compliance. As a matter of fact, a study has revealed that tax compliance rates rise in tandem with increased audit rates (Alm et al., 1992, p. 112). In another study with similar findings, researchers found that among Minnesota taxpayers who received notifications implying impending tax audits, taxpayers with low and middle incomes, in particular, reported increased incomes and tax liabilities compared to the previous year in response to the heightened risk of tax audits (Slemrod, Blumenthal and Christian,

2001, p. 455). Just as an effective audit exerts a positive effect on tax ethics, an insufficient audit can lead taxpayers to engage in fraudulent behavior. Taxpayers who perceive audits as lax and believe there is a low risk of detection may be more inclined toward tax evasion.

### **3.5.8. Perception of Corruption**

The fiscal purpose of taxation is to finance public services (Akdoğan, 2020, p. 124). Therefore, taxpayers pay these taxes with the legitimate expectation that tax revenues will be reinvested in the form of public services. In a society characterized by a heightened perception of corruption, the expectation that tax revenues will be reinvested in the form of public services is likely to decrease, leading to a potential decline in voluntary tax compliance. Taxpayers who hold the belief that the taxes they pay will be misappropriated for corrupt purposes will have less trust in the state (Şahin and Hatırlı, 2016, p. 266). Therefore, there exists an inverse relationship between the societal perception of corruption and the level of tax ethics.

## **3.6. Demographic Criteria (K6)**

It is known that demographic criteria including age, marital status, gender, occupation, and educational level affect tax ethics. However, it is important to recognize that external intervention is often unfeasible to modify demographic criteria, except for educational level. Therefore, policymakers aiming to enhance tax ethics in society would be better advised to prioritize other changeable criteria.

### **3.6.1. Age**

Age, as one of the demographic criteria, is considered a determinant of tax ethics. There is an assumption that as individuals age, their level of tax ethics tends to increase (Can and Duran, 2015, p. 56). One of the reasons for the difference in tax ethics between older and younger individuals is that younger people may be more reluctant to pay taxes because they need to allocate a higher proportion of

their income to consumption. In contrast, older individuals have typically achieved a certain standard of living, and as a result, they tend to react less negatively than younger individuals to the taxes they must pay (Çataloluk, 2008, p. 221). Another factor contributing to this difference is the difference in risk perceptions between older and younger individuals. The potential consequences of facing penalties for non-payment of taxes affect these two groups differently (Yurdakul, 2013, p. 19). In contrast, a study with differing findings emphasizes that there is no direct correlation between individuals' age and their tax ethics (Karaaslan and Sandalcı, 2015, p. 51). Likewise, Torgler et al. discovered that younger individuals have lower levels of tax ethics, though they were unable to find a significant correlation between age and tax ethics among individuals in older age groups (Torgler et al., 2018, p. 336).

### **3.6.2. Marital Status**

The extent to which individuals are constrained by the social networks around them may affect their propensity to engage in legal and illegal behavior. This constraint may also have an impact on tax ethics. Several studies have reported variations in tax ethics between married and single individuals. For example, studies conducted in Spain and the United States have indicated that married individuals tend to exhibit higher levels of tax ethics compared to single individuals. However, it is worth noting that this difference may be due to different tax practices for married and single individuals (Alm and Torgler, 2004, p. 6). A survey conducted in Türkiye yielded similar results, as married individuals tended to hold a more negative view of tax evasion compared to single individuals (Yurdakul, 2013, p. 30).

### **3.6.3. Gender**

Another criterion affecting tax ethics is gender. Social psychological research indicates that women are more compliant on many issues. Additionally, women are generally observed to exhibit higher levels of risk aversion compared to men. Taking all these factors into account, it is assumed that women demonstrate higher levels of tax compliance and tax ethics than men (Torgler, 2007, p. 30).

### **3.6.4. Profession**

Whether individuals have a job or not has an impact on their level of tax ethics. Unemployed individuals have lower levels of tax ethics than full-time employed individuals. Similarly, part-time employed individuals and self-employed individuals also exhibit lower levels of tax ethics when compared to full-time employed individuals (Torgler, 2007, p. 31). In addition to individuals' employment status, their professions are also recognized to have an impact on their level of tax ethics. Certain professions, such as doctors, lawyers, and accountants, are associated with strong underlying ethical codes. As a result, taxpayers working in these professions are expected to have higher levels of tax ethics (Torgler and Schneider, 2007, p. 452).

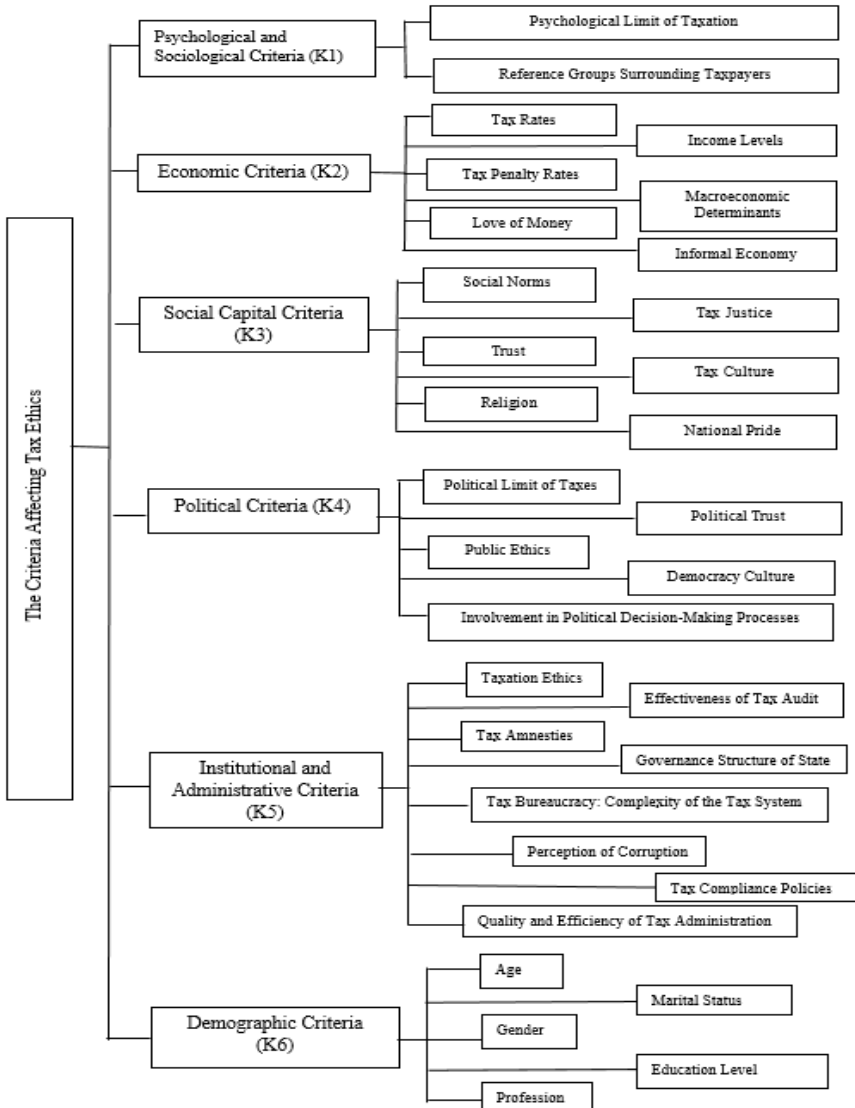
In a study, self-employed workers were found to have lower tax ethics than full-time employees, the unemployed, and pensioners (Gökbunar, Selim, and Yanikkaya, 2007, p. 80). The fact that pensioners receive their salaries from the state, and therefore transparency and control are high, is considered a reason for their higher levels of tax ethics (Torgler and Schneider, 2007, p. 452). Additionally, payment methods used in professions can impact tax ethics. For instance, small business owners often conduct cash transactions make easier to exclude incomes from the declaration (Serim, 2015, p. 154).

### **3.6.5. Education Level**

The relationship between the level of education and tax ethics is intricate. Educated individuals are more knowledgeable about tax law and fiscal interconnections. Furthermore, they have a high awareness regarding the allocation and potential waste of tax revenues (Torgler, 2007, p. 31). Williams and Krasniqi, in their study encompassing 35 Eurasian countries, found that individuals with university-level education have higher levels of tax ethics in comparison to those lacking a university education (Williams and Krasniqi, 2017, p. 825). On the other hand, the tax compliance of educated individuals may be adversely impacted by their high awareness of opportunities for tax evasion and avoidance.

Therefore, the relationship between education level and tax ethics should not be considered in isolation from factors such as government expenditures and the ratio of taxes paid and services received (Torgler, 2007, p. 31).

**Table 1. The Criteria Affecting Tax Ethics**



#### 4. Method

In this study, which examines the factors influencing the tax ethics of society and individuals, the data obtained has been analyzed using the Fuzzy DEMATEL (The Decision-Making Trial and Evaluation Laboratory) method. The main and sub-criteria included in the scope of the study were determined by reviewing studies conducted in both national and international literature. After identifying the criteria affecting tax ethics, these criteria were evaluated by experts with at least 10 years of experience in the field through pairwise comparisons. Ethical approval for the study was obtained from the Istanbul Medeniyet University Social and Human Sciences Scientific Research and Publication Ethics Committee with the reference number E-38510686-000-2300007281.

In this study, a purposive sampling method known as maximum diversity sampling has been employed. The maximum diversity sampling method aims to maximize the diversity of individuals included in the sample in order to achieve the highest possible diversity relevant to the research topic. (Coyne, 1997, p. 628). In this study, attention was paid to selecting individuals with professional experience in taxation and tax ethics as the sample group. The characteristics of the selected expert group are shown in Table 2.

**Table 2: Information on Experts Contributing to the Study**

Experts	Field of Study	Profession	Professional Experience	Education Level
U1	Tax Law	Academician	11 Years	Ph.D.
U2	Tax Law	Academician	12 Years	Ph.D.
U3	Accounting and Taxation	Certified Public Accountant (CPA)	24 Years	Bachelor's Degree
U4	Tax Audit	Tax Inspector	11 Years	Bachelor's Degree
U5	Tax Audit	Tax Inspector	10 Years	Bachelor's Degree
U6	Tax Law and Jurisdiction	Judge	21 Years	Bachelor's Degree



#### 4.1. Fuzzy DEMATEL Method

In problems involving multiple criteria and the need for decision-making, multi-criteria decision-making methods are frequently used, especially with the development of computer science. The decision-making process involves selecting an alternative for a defined problem and listing alternatives under the current data, the decision-makers' perspectives, and the objective of the decision (Zopounidis, 2002, p. 227). Depending on the nature of the problems, various multi-criteria decision-making techniques have been developed. Regarding illustrating relationships between criteria, using the Fuzzy DEMATEL method has been deemed appropriate for this study.

The DEMATEL (Decision Making Trial and Evaluation Laboratory) method was introduced by Gabus and Fontela in 1972 (Fontela and Gabus, 1972, p. 3). This method was first employed in 1973 by the Battelle Memorial Institute through the Geneva Research Center (Chang, Chang, and Wu, 2011). The DEMATEL method is an effective technique for illustrating cause-and-effect relationships between criteria in problems with a large number of criteria through the use of matrices. (Si, You, Liu, and Zhang, 2018, p. 20; Bakir, Khan, Ahsan and Rahman, 2018, p. 326). In the DEMATEL method, as in other multi-criteria decision-making techniques, the evaluation and determination of criteria are carried out based on expert opinions. The DEMATEL method reveals the relationships among complex criteria through a relationship diagram (Leblebicioğlu and Keskin, 2021; Baş and Eti, 2022). Additionally, it allows the researcher to prioritize criteria related to the specific problem, enabling a focus on fewer criteria (Chang et al., 2011; Lin, 2013; Tsai et al., 2015).

The DEMATEL method aims to draw meaningful conclusions by visualizing the complex cause-effect relationships of a problem (Du et al., 2020). However, it is quite difficult to determine and quantitatively express the degree of interaction between factors in these relationships. Therefore, Lin and Wu transferred the DEMATEL method to a fuzzy environment (Lin and Wu, 2008). With the application of fuzzy logic to the DEMATEL method, the decision-making group

makes their evaluations more applicable and compatible with the real world by using linguistic variables to express uncertainty, as is the basis of this logic (Özdemir, 2016, p. 236).

There are seven steps in the Fuzzy DEMATEL model used in the study. Detailed information about these steps is briefly listed below. Triangular fuzzy numbers were used in this study.

**Step 1:** Once the problem has been identified, it should be clearly defined. The criteria should be clear and ensure that all important criteria that will affect the problem are included in the model.

**Step 2:** In this step, the direct relationship matrix, which is the first calculation data of the DEMATEL method, is created. At this stage, the relationships between the criteria are evaluated by the decision-makers.

**Step 3:** At this stage, the relationship between the criteria is measured by evaluating the bilateral relationships between the criteria by the decision-makers. Then, the fuzzy matrix ( $Z$ ) is calculated. Fuzzy linguistic expressions are shown in the table below:

**Table 3: Fuzzy Language Scale**

Linguistic Scales	Triangular Fuzzy Numbers		
No Effect	0	0	0.25
Low Impact	0	0.25	0.5
Medium Impact	0.25	0.5	0.75
High Impact	0.5	0.75	1
Very High Impact	0.75	1	1

Source: (Wu and Lee, 2007, p. 503).

Equations (1) and (2) were used in this process. Six different experts conducted the evaluations in the study. Experts made their assessments using the five-point rating scale mentioned above.

$$(\check{Z}) = \frac{\check{Z} \otimes \check{Z}^2 \otimes \dots \otimes \check{Z}^p}{p} \tag{1}$$

$$\check{Z} = \begin{pmatrix} 0 & \dots & \check{Z}_{1n} \\ \vdots & \ddots & \vdots \\ \check{Z}_{n1} & & 0 \end{pmatrix} \tag{2}$$

As can be seen from Equation 1, in the calculation of the average fuzzy matrix, values are divided by the number of experts. Additionally, in the equations above, the value  $\check{Z}_{ij}$  is composed of three triangular fuzzy numbers as  $\check{Z}_{ij} = (lij, mij, uij)$ .

**Step 4:** The fourth stage of the analysis consists of the normalization process of the decision matrix. In this context, the normalized direct relationship matrix ( $\bar{X}$ ) is obtained. This process is calculated with the help of equations (3) to (5).

As can be understood from the equations above, the largest number in the rows of the average fuzzy matrix is determined, and all values in the matrix are divided by this number.

**Step 5:** In the fifth stage, the total relationship fuzzy matrix ( $\check{T}$ ) is created using equations (6) to (10).

$$X_l = \begin{pmatrix} 0 & \dots & l'_{1n} \\ \vdots & \ddots & \vdots \\ l'_{n1} & & 0 \end{pmatrix} X_m = \begin{pmatrix} 0 & \dots & m'_{1n} \\ \vdots & \ddots & \vdots \\ m'_{n1} & & 0 \end{pmatrix} X_u = \begin{pmatrix} 0 & \dots & u'_{1n} \\ \vdots & \ddots & \vdots \\ u'_{n1} & & 0 \end{pmatrix} \tag{6}$$

$$\check{T} = \begin{pmatrix} \check{t}_1 & \dots & \check{t}_{1n} \\ \vdots & \ddots & \vdots \\ \check{t}_{n1} & & \check{t} \end{pmatrix} \tag{7}$$

$$t''_{ij} = X(1 - X_l)^{-1} \tag{8}$$

$$m''_{ij} = X(1 - X_m)^{-1} \tag{9}$$

$$u_{ij} = X(1 - X_u)^{-1} \tag{10}$$

The steps of the process of converting fuzzy numbers into crisp scores, also known as the CFCs (Converting Fuzzy Data into Crisp Scores) method, developed by Opricovic and Tzeng (2003, p. 643), are shown using the following notations:

$$\check{T} = (l_{ij}, m_{ij}, u_{ij}) \quad R = \max u_{ij} \quad L = \min l_{ij} \quad \text{and} \quad \Delta = R - L \quad (11)$$

$$t_{ij} = (l_{ij} - L) / \Delta, \quad t_{mj} = (m_{ij} - L) \Delta, \quad t_{uj} = (u_{ij} - L) \Delta \quad (12)$$

$$t_{ij}^{ls} = t_{mj} / (1 + t_{mj} - t_{ij}), \quad t_{uj}^{rs} = t_{uj} / (1 + t_{uj} - t_{mj}) \quad (13)$$

$$t_j^{crisp} = [t_{ij}^{ls} x (1 - t_{ij}^{ls}) + t_{uj}^{rs} x t_{uj}] / [1 - t_{ij}^{ls} + t_{uj}^{rs}] \quad (14)$$

$$\check{f}_{ij}^{crisp} = L + t_j^{crisp} x \Delta \quad (15)$$

**Step 6:** In the final stage of the analysis,  $(\check{D}_i + \check{R}_i)^{def}$  and  $(\check{D}_i - \check{R}_i)^{def}$  values are calculated. Where  $\check{D}_i$  represents the sum of all vector columns, and  $\check{R}_i$  represents the sum of all vector rows. The degree of influence between criteria is represented by the value  $(\check{D}_i + \check{R}_i)^{def}$ . In other words, a higher value for this indicates that the criteria are much closer to the center point. On the other hand,  $(\check{D}_i - \check{R}_i)^{def}$  values represent the relationships between criteria. A positive value for this indicates that it influences other criteria.

In the last step of the sixth step, the importance weights of the variables are calculated. First, the total value of  $(\check{D}_i + \check{R}_i)^{def}$  is calculated. Then, the importance weights of the criteria are obtained by dividing the value of each criteria by the calculated total value  $(\check{D}_i - \check{R}_i)^{def}$ . The sum of all obtained criteria weights equals 1.

**Step 7:** In this stage, a network structure is created. To create a network structure using the total relationship matrix, it is necessary to first calculate the threshold value. The threshold value can be a value determined by decision-makers. If there is no such value, it can be determined by taking the average of the total relationship matrix.

## 4.2. Findings

In the study, the Fuzzy DEMATEL method was applied to analyze the criteria influencing tax ethics in Türkiye. Six criteria, determined as a result of a

comprehensive literature review and expert opinions, were evaluated by participants who specialize in various fields of tax law. The fundamental criteria affecting tax ethics and sample studies conducted in this field are shown in the table below.

**Table 4: Literature on Criteria Affecting Tax Ethics**

Criteria	Relevant Literature
<b>Psychological and Sociological Criteria (K1)</b>	Torgler et al. (2018), Serim (2015), Kitapçı (2021)
<b>Economic Criteria (K2)</b>	Freire-Serén and Panadés (2013), Alm et al. (1992), Kitapçı (2021), Torgler (2007), Yayla et al. (2009), Ömercioğlu (2018)
<b>Social Capital Criteria (K3)</b>	Kitapçı (2021), Torgler (2017), Kaynar Bilgin (2011), Torgler (2007), Yurdakul (2013), McGee et al. (2020),
<b>Political Criteria (K4)</b>	Kitapçı (2021), Yurdakul (2013), Torgler (2007), Alm and Torgler (2006)
<b>Institutional and Administrative Criteria (K5)</b>	Kitapçı (2021), Torgler (2007), Karakoç (2004), Feld and Frey (2002), Savaşan (2006), Alm et al. (1992), Slemrod et al. (2001), Şahin and Hatırlı (2016)
<b>Demographic Criteria (K6)</b>	Can and Duran (2015), Çataloluk (2008), Torgler et al. (2018), Alm and Torgler (2004), Torgler (2007), Torgler and Schneider (2007), Serim (2015), Williams and Krasniqi (2017)

Triangular fuzzy numbers have transformed the criteria influencing tax ethics into a fuzzy impact matrix. The fuzzy impact matrix for the analysis is shown in Table 5.

The fuzzy impact matrix in Table 5 is normalized to create a fuzzy influence matrix for subsequent calculations. Table 6 displays the normalized fuzzy impact matrix.

In the next step of the analysis, the total fuzzy influence matrix is created by calculating the total values of the normalized fuzzy impact matrix. Table 7 displays the total fuzzy influence matrix of the Fuzzy DEMATEL method.

In the next step, the total fuzzy influence matrix needs to be transformed into an influence matrix. Table 8 converts fuzzy numbers into a non-fuzzy set of numbers, i.e., a total relationship matrix. In other words, it has undergone a crispification process. The crispification process was conducted according to the method proposed by Opricovic and Tzeng (2003, p. 643).

**Table 5: Fuzzy Effect Matrix of Criteria Affecting Tax Ethics**

	K1			K2			K3			K4			K5			K6		
<b>K1</b>	0.000	0.000	0.250	0.167	0.417	0.667	0.125	0.375	0.625	0.083	0.333	0.583	0.125	0.375	0.625	0.208	0.458	0.708
<b>K2</b>	0.583	0.833	1.000	0.000	0.000	0.250	0.500	0.750	0.958	0.542	0.792	1.000	0.417	0.667	0.917	0.500	0.750	0.958
<b>K3</b>	0.250	0.500	0.750	0.042	0.292	0.542	0.000	0.000	0.250	0.042	0.292	0.542	0.042	0.292	0.542	0.292	0.542	0.792
<b>K4</b>	0.500	0.750	1.000	0.125	0.375	0.625	0.375	0.625	0.875	0.000	0.000	0.250	0.333	0.583	0.833	0.417	0.667	0.875
<b>K5</b>	0.208	0.458	0.708	0.208	0.458	0.708	0.375	0.625	0.833	0.208	0.458	0.667	0.000	0.000	0.250	0.417	0.667	0.875
<b>K6</b>	0.208	0.458	0.708	0.000	0.250	0.500	0.167	0.417	0.667	0.042	0.292	0.542	0.083	0.333	0.583	0.000	0.000	0.250

**Table 6: Normalized Fuzzy Influence Matrix**

N	K1			K2			K3			K4			K5			K6		
<b>K1</b>	0.000	0.000	0.049	0.033	0.082	0.131	0.025	0.074	0.123	0.016	0.066	0.115	0.025	0.074	0.123	0.041	0.090	0.139
<b>K2</b>	0.115	0.164	0.197	0.000	0.000	0.049	0.098	0.148	0.189	0.107	0.156	0.197	0.082	0.131	0.180	0.098	0.148	0.189
<b>K3</b>	0.049	0.098	0.148	0.008	0.057	0.107	0.000	0.000	0.049	0.008	0.057	0.107	0.008	0.057	0.107	0.057	0.107	0.156
<b>K4</b>	0.098	0.148	0.197	0.025	0.074	0.123	0.074	0.123	0.172	0.000	0.000	0.049	0.066	0.115	0.164	0.082	0.131	0.172
<b>K5</b>	0.041	0.090	0.139	0.041	0.090	0.139	0.074	0.123	0.164	0.041	0.090	0.131	0.000	0.000	0.049	0.082	0.131	0.172
<b>K6</b>	0.041	0.090	0.139	0.000	0.049	0.098	0.033	0.082	0.131	0.008	0.057	0.107	0.016	0.066	0.115	0.000	0.000	0.049

**Table 7: Total Fuzzy Impact Matrix**

T	C1			C2			C3			C4			C5			C6		
<b>C1</b>	0.011	0.078	0.474	0.035	0.125	0.450	0.034	0.142	0.523	0.022	0.119	0.459	0.030	0.128	0.481	0.051	0.163	0.561
<b>C2</b>	0.143	0.285	0.783	0.013	0.090	0.511	0.123	0.261	0.748	0.116	0.239	0.673	0.097	0.224	0.682	0.130	0.275	0.782
<b>C3</b>	0.055	0.163	0.551	0.011	0.101	0.420	0.006	0.068	0.442	0.011	0.107	0.441	0.012	0.110	0.457	0.063	0.172	0.563
<b>C4</b>	0.115	0.241	0.708	0.032	0.140	0.524	0.089	0.213	0.663	0.010	0.080	0.481	0.074	0.187	0.604	0.102	0.231	0.694
<b>C5</b>	0.060	0.184	0.619	0.045	0.146	0.504	0.087	0.205	0.617	0.049	0.157	0.523	0.011	0.077	0.466	0.099	0.222	0.652
<b>C6</b>	0.045	0.150	0.527	0.003	0.091	0.400	0.037	0.139	0.502	0.010	0.104	0.427	0.019	0.113	0.449	0.007	0.070	0.449

**Table 8: Total Relationship Matrix**

Fij	K1	K2	K3	K4	K5	K6
K1	0.145175	0.176385	0.198967	0.172683	0.183332	0.220312
K2	0.352756	0.162239	0.330497	0.304271	0.293579	0.344848
K3	0.21907	0.152383	0.131881	0.160532	0.165003	0.227462
K4	0.306726	0.201741	0.279297	0.149098	0.251672	0.29682
K5	0.247806	0.203166	0.264376	0.213446	0.143963	0.281395
K6	0.204438	0.140479	0.192324	0.154484	0.165254	0.13412
<b>Threshold Value</b>	0.215888					

In the subsequent stage, total effect values are obtained from the total relationship matrix. Table 9 presents the degrees of effect-relationship and the criteria weights. Based on the criteria values influencing tax ethics for both individuals and society, as shown in Table 9, it is evident that economic criteria (K2) hold the highest importance in determining tax ethics. Political criteria (K4) and psychological and sociological criteria (K1) are the second most critical factors, with equal significance in shaping tax ethics. Conversely, the social capital criteria (K3) has the least impact on tax ethics, as indicated by the analysis results. The average value of the total relationship matrix, also known as the threshold value, is calculated to be 0.215888. The threshold value can be determined by expert opinions or by calculating the average of the total relationship matrix.

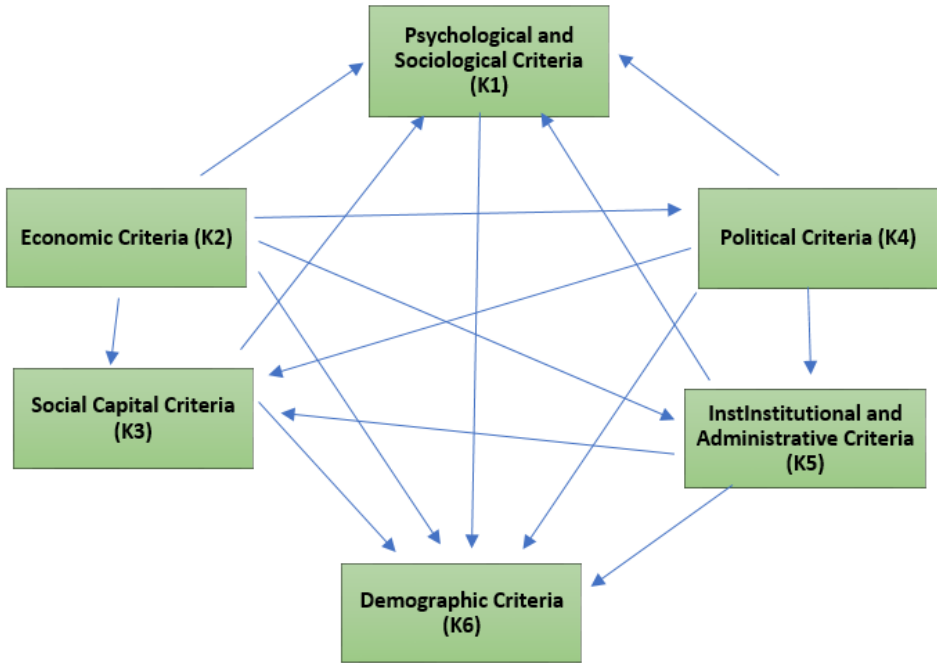
**Table 9: Effect-Relationship Degree and Criteria Weight Results**

Criteria	D	R	D+R	D-R	W
K1	1.096854	1.475972	2.572825	-0.379118	0.165519
K2	1.788191	1.036393	2.824584	0.751798	0.181716
K3	1.05633	1.397342	2.453673	-0.341012	0.157854
K4	1.485354	1.154513	2.639867	0.330841	0.169832
K5	1.354152	1.202804	2.556955	0.151348	0.164498
K6	0.99110	1.504957	2.496058	-0.513857	0.160581

The D+R value in the table represents the degree of relationship between criteria and other criteria. In the final step of the analysis, a "threshold value" has been created by taking the average of the values in the total relationship matrix shown in Table 8 (0.215888). Values above this threshold value are highlighted in dark color in Table 8. These values in Figure 1 represent the influence of criteria

on each other regarding tax ethics. Additionally, with the help of the threshold value, the relationship matrix shown in Figure 1 has been constructed.

**Figure 1. DEMATEL Cause and Effect Diagram**



According to Figure 1, there is a very important relationship between the criteria affecting tax ethics; almost all criteria have a mutual relationship. However, according to the analysis results, it is seen that the demographic criteria (K6) have no effect on the other criteria, while it is affected by all other criteria. The criteria that have the most effect on other criteria are the economic criteria (K2). Although economic criteria (K2) affect all other criteria, other criteria have no effect on economic criteria (K2).

### 5. Conclusion and Recommendations

In order to prevent the negative consequences of low tax ethics, the level of tax ethics should be enhanced by starting with taxpayers. Having the full and



timely payment of taxes become a social norm among taxpayers will increase the level of tax ethics in society. In order to make policies for increasing the tax ethics of taxpayers and society, the criteria that affect tax ethics need to be determined. For this reason, the current study first determines the criteria that affect tax ethics by reviewing the domestic and foreign literature. As a result of the literature review, the study has determined 6 main criteria and 32 sub-criteria. The study includes the psychological and sociological (K1), economic (K2), social capital (K3), political (K4), institutional and administrative (K5), and demographic criteria (K6) as the main criteria affecting tax ethics.

While some of the criteria affecting tax ethics are open to external interventions by administrators and policymakers, sub-criteria such as age, marital status, and religion cannot be interfered with from outside. For this reason, it is important to identify the criteria affecting tax ethics, especially those open to external interventions, and to develop policies towards them. This large number of criteria require them to be ranked in order of importance. In this way, administrators and policymakers can focus on the most important criteria and be able to take measures more quickly to enhance tax ethics. In order to achieve this, the study aims to both rank the criteria that affect tax ethics in order of importance and identify the relationships among the criteria. For this aim, the study uses the Fuzzy Decision Making Trial and Evaluation Laboratory (DEMATEL) method as one of the multi-criteria decision-making methods that consider the interactions among decision criteria. Six experts with at least 10 years of professional experience in different areas of tax law evaluated the identified criteria. Two of these experts are tax inspectors, two are academicians, one is a tax judge, and one is a certified public accountant.

The results of the method are largely consistent with the literature and the study's expectations. As expected, the most important criteria involve the economic criteria (K2). The political (K4) and psychological and sociological criteria (K1), which are believed to have a high impact on tax ethics, also rank highly. The criteria with the least impact on tax ethics involves the criteria of social capital (K3). Meanwhile, the demographic criteria were expected to be found as the lowest-ranking criteria.

When evaluating the relationship between criteria based on the cause and effect diagram for the application study, it is observed that all criteria, except for (K2) and (K6), are mutually related. While (K6) has no impact on other criteria, (K2) differs in that it affects all criteria but is not influenced by other criteria.

Based on the application results, it is possible to make some inferences to enhance tax ethics and provide recommendations to administrators and policymakers. The problems that may arise from the low tax ethics of taxpayers and society and the importance of raising tax ethics have been emphasized in previous sections. In this regard, we recommend addressing the criteria by the importance order determined in the study.

The economic criteria have the highest impact on tax ethics and contain the following sub-criteria: tax rates, tax penalty rates, income level, love of money, macroeconomic determinants, and informal economy. In order to enhance tax ethics, policies should be developed toward the sub-criteria where external intervention is possible. For example, influencing the love of money, which is believed to negatively impact taxpayers' tax ethics, is impossible. However, tax rates as another sub-criterion, can be adjusted in a way that does not negatively affect tax ethics. Similarly, an increase in tax penalty rates combined with a strict tax audit will also serve the purpose of enhancing tax ethics. Economic policies aimed at increasing taxpayers' income levels will also positively impact tax ethics. Macroeconomic determinants such as gross national product, inflation, unemployment, and income distribution also affect tax ethics in various ways. In countries with high unemployment and no fair income distribution, taxpayers will develop reactions against taxes, which will in turn adversely affect tax ethics. When examining the relationship between inflation and tax ethics, high inflation is seen to have a negative impact on tax ethics, and individuals may be more inclined to spend their money on consumption rather than on paying taxes in an economy with high inflation due to their money eroding in value over time. Consequently, this can lead to a decline in tax ethics and compliance. Given the negative relationship between inflation and tax ethics, policymakers should be aware of the potential impacts inflation has on taxpayers' willingness to comply with tax

laws. Inflation should be considered when designing tax policies and strategies for enhancing tax ethics and compliance. Another sub-criterion of the economic criteria (K2) informal economy has an interrelation with tax ethics and can also be interfered with externally. As mentioned earlier, reducing informality can positively affect tax ethics, and high tax ethics levels can also reduce informality. Therefore, ensuring the registration of informal activities and preventing the growth of the informal economy are important for tax ethics.

In addition to economic criteria, the political criteria and the psychological and sociological criteria have major impacts on tax ethics levels, and administrators and policymakers should also consider these two criteria together with their sub-criteria. When evaluating political criteria, it becomes evident that attention should be paid to the political limits of taxes when formulating tax policies. For instance, policies that prioritize indirect taxes, because they are less felt by taxpayers can negatively affect tax ethics. Tax policies alone, however, are not the only factors at play; policymakers and implementers can also influence tax ethics. Distrust in these individuals can increase the propensity for fraudulent behavior. Therefore, ensuring political trust is also crucial. While intervention in the short term may be challenging, fostering a culture of democracy within society in the long term will have a positive impact on tax ethics. When examining country examples, it is observed that a high level of tax ethics often accompanies a developed culture of democracy. Moreover, increasing the participation of individuals in both tax policies and general political decision-making processes will also enhance tax ethics. This is because individuals who participate in the decision-making process, believe they are adequately represented, and feel a sense of identity with the state are more likely to comply with decisions and have a tendency to pay their taxes.

The psychological and sociological criteria, comprising two sub-criteria, namely the psychological limit of taxation, and the individual's reference groups, have been identified as having a high impact on taxpayers' levels of tax ethics. Paying attention to the psychological limit of taxation is essential to avoid diminishing tax ethics. This is because as tax rates and the perceived degree of

taxation increase, tax ethics tend to be negatively affected. When the psychological limit of the tax burden is exceeded and the perceived tax burden is too high, it can lead to increased reactions against taxation. The individual's reference groups also play a significant role in shaping the level of tax ethics. If the level of tax ethics is high among the taxpayer's family, friends, and colleagues, and if fraudulent behavior related to taxes is not condoned, these factors will positively influence the taxpayer's tax ethics. However, if unethical behavior related to taxes is tolerated or encouraged within the taxpayer's social circles, the taxpayer's tax ethics may be negatively affected. Therefore, it would be beneficial to develop policies aimed at cultivating tax awareness, starting from the smallest units of society. For example, efforts can be made within professional organizations to enhance tax ethics among individuals within specific professional groups. While the social capital criteria, demographic criteria, and institutional and administrative criteria may have relatively less weight in influencing tax ethics, policymakers and implementers should still consider evaluating them. Even if these criteria are not their primary focus for enhancing tax ethics, they should at least avoid making decisions that would reduce tax ethics when formulating policies in these areas.

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**Ethics Committee Approval:** Ethical approval for the study was obtained from the Istanbul Medeniyet University Social and Human Sciences Scientific Research and Publication Ethics Committee with the reference number E-38510686-000-2300007281.

**Peer-review:** Externally peer-reviewed.

**Author Contributions:** Conception/Design of Study- B.K.Y, A.K.; Data Acquisition- B.K.Y, A.K.; Data Analysis/Interpretation- B.K.Y, A.K.; Drafting Manuscript- B.K.Y, A.K.; Critical Revision of Manuscript- B.K.Y, A.K.; Final Approval and Accountability- B.K.Y, A.K.

**Conflict of Interest:** The authors have no conflict of interest to declare.

**Grant Support:** The authors declared that this study has received no financial support.

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RESEARCH ARTICLE

## Do People Adapt to Unemployment? Findings from Türkiye

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### ABSTRACT

Unemployment is known to have adverse effects on well-being. Moreover, people can adapt to many adverse events to some extent. This study seeks to answer the question "Do people adapt to unemployment over time?" to shed light on the happiness of the unemployed in Türkiye. We use individual-level data from the Life Satisfaction Survey in 2010–2020. First, we show that, consistent with previous research, the happiness of the unemployed is significantly lower than that of the employed. Second, those who have been unemployed for less than a year are less happy than those who have been unemployed for more than a year. That is, the unemployed become accustomed to their situation over time. However, those who have found work in the last year are much happier than both the unemployed in general and those who have been unemployed for more than a year and have adapted to unemployment. From the standpoint of happiness, our results support the hypothesis that finding a job is preferable to becoming accustomed to unemployment. In addition, married men are more adversely impacted by unemployment and less adaptive to unemployment.

**Keywords:** Unemployment, Well-being, Adaptation, Türkiye

**JEL Classification:** F13, H23



DOI: 10.26650/ISTJECON2023-1271508

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**Submitted:** 28.03.2023

**Accepted:** 06.11.2023

**Citation:** Ugur, Z.B. (2023). Do people adapt to unemployment? Findings from Türkiye. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 781-810.

<https://doi.org/10.26650/ISTJECON2023-1271508>



## 1. Introduction

Unemployment can have far-reaching consequences for individuals and society, including higher suicide rates (De Vogli, Marmot, and Stuckler, 2013), increased domestic abuse incidents (Tur-Prats, 2021), elevated tobacco consumption (Everding and Marcus, 2020), and decreased overall happiness (Winkelmann, 2014). During the late 1920s, Jahoda, Lazarsfeld, and Zeisel (1933) conducted one of the pioneering studies on the psychological toll of unemployment in Marienthal, Austria. The unemployed are described in this study as feeling less and less useful as their chances of finding work diminish, and their resilience collapses over time (Jahoda et al., 1933). This small-scale anthropological study shows that people, especially men, cannot adapt to unemployment. The negative consequences of unemployment may be due to the deprivation of the benefits of working in a job because working allows people to belong and socialize with their colleagues. There is ample empirical evidence to support the positive impact of work on well-being (Sherman and Shavit, 2018; Axelrad, Sherman, and Luski, 2020). Simultaneously, unemployment goes against the social norm to work, especially for men. Because it is a deviation from a norm, it can negatively affect people's well-being via the social norm channel, and such mechanism is supported by findings from developed countries such as England (Clark, 2003) and Türkiye (Ugur and Durak, 2022).

Subjective well-being (SWB) research shows that people can adapt to adverse circumstances to some extent (Cummins, 2000; Diener, Lucas, and Scollon, 2009), a concept known as subjective homeostasis. This means that individuals return to their equilibrium level of happiness after some shock, and we can theoretically expect them to be accustomed to unemployment. However, evidence from panel data, primarily collected in developed countries, such as Germany and England, suggests that the unemployed individual's subjective well-being does not fully recover to pre-unemployment levels (Lucas, Clark, Georgellis, and Diener, 2004; Clark and Georgellis, 2013; Von Scheve, Esche, and Schupp, 2017). Many cross-sectional studies also show that, even after accounting for numerous background factors, the unemployed consistently report lower levels of happiness than their

employed counterparts (Clark and Oswald, 1994; Winkelmann and Winkelmann and Winkelmann, 1998; Böckerman and Ilmakunnas, 2006), implying that unemployment leaves a scar that does not fade away.

Long-term unemployment, defined as the inability to find suitable work for an extended period, may be influenced by undesirable personality traits in the individual. In this case, the difference in the unhappiness of the long-term unemployed may be due to a selection of different personality traits rather than unemployment.

The present study investigates whether people in Türkiye adapt to unemployment. Specifically, we compare the happiness of recently unemployed individuals with those who have been jobless for more than 1 year. Additionally, we assess the happiness of long-term unemployed individuals compared to newly employed individuals, shedding light on whether people should be encouraged to find work or adapt to unemployment. Our analysis utilizes individual-level data from the Life Satisfaction Survey from 2010 to 2020.

Türkiye presents an interesting case due to opposing societal forces related to adaptation to unemployment. On the one hand, research suggests that individuals fare better in societies with higher unemployment rates, where the social norm of working deteriorates in the face of widespread unemployment (see Clark, 2003; Stavrova, Schlösser, and Fetchenhauer, 2011; Roex and Rözer, 2018). Unemployment is a major issue in Türkiye. Since 2014, the unemployment rate for people aged 15 and over has been approximately 10%, reaching 13.7% in 2019 (TÜİK, 2022) (see Appendix Figure A-1 for more details). Türkiye has problems, especially concerning youth unemployment. In terms of the NEET indicator, which measures young population who are neither employed nor in education, the highest rate in the EU and candidate countries belongs to Türkiye with 32%, whereas the average for the 27 EU countries is 13.8% (EUROSTAT, 2021). Despite these high unemployment rates, a strong cultural belief exists in Türkiye that people should be industrious. In the latest wave (2017–2020) of the World Values Survey, 20% of the people of Türkiye strongly agreed and 46% agreed with the

following statement “work is a duty toward society” and 24% and 48% of the people of Türkiye strongly and agree with the statement that “people who do not work become lazy, respectively. This cultural emphasis on work contrasts with the prevalence of unemployment, resulting in a unique dynamic in Türkiye that raises concerns about joblessness adaptation.

Our findings reveal that the unemployed in Türkiye experience significantly lower happiness levels than their employed counterparts. Those who have been unemployed for more than a year are slightly happier than those who have been unemployed for less than a year, but this slight increase suggests that adaptation to unemployment occurs to some extent over time. However, even when accounting for variables such as friendship satisfaction and subjective health status, which can reflect individual personality traits, the happiness scores of the unemployed still fall short of those who are employed. Furthermore, individuals who have found work in the last year report higher happiness levels than both the average unemployed and those who have been unemployed for more than a year, indicating that finding work has a more positive impact on well-being than adapting to unemployment.

This study has important implications for understanding the experiences of the unemployed in Türkiye, where high unemployment rates affect a large percentage of the population. By shedding light on the effects of unemployment and its implications for happiness, we can better inform policies aimed at addressing unemployment and raising awareness among the jobless that their reduced well-being is not unique to them.

## **2. Literature Review**

Unemployment is a complicated social issue with far-reaching ramifications for individuals and society. Numerous studies have explored the impact of unemployment on well-being. A consistent finding in the body of research utilizing data from various countries, including Britain (Clark and Oswald, 1994), Germany (Winkelmann and Winkelmann, 1998), Finland (Böckerman and

Ilmakunnas, 2006), and Türkiye (Ugur, 2023) points to a shared conclusion. This consensus is that unemployed people consistently express reduced levels of subjective well-being compared to those who are employed. This trend underscores unemployment's lasting and profound impact on individuals' overall well-being. This consistent pattern suggests that the negative effects of unemployment may have a long-term impact on individuals' well-being. Furthermore, these findings cast doubt on the notion that people can effectively adapt to the experience of unemployment.

However, another line of research shows the immense capacity of humans for adaptation. Previous studies also showed that individuals' subjective well-being also returns to the reference point with adaptation over time (Cummins, 2000; Diener et al., 2009). People have been shown to adapt to good events, such as winning a lottery, and bad events, such as paralysis (Brickman, Coates, and Janoff-Bulman, 1978). From this line of research, one can expect the SBW of the unemployed to return to their baseline before unemployment.

To clarify the adaptation to unemployment, researchers utilized panel data. The results of Britain (Clark and Georgellis, 2013) and Germany (Lucas et al., 2004; Von Scheve et al., 2017) show that the subjective well-being of the unemployed does not fully rebound to the baseline levels. This line of research clearly shows some adaptation. However, because it is difficult to collect panel data, all evidence for adaptation comes from developed countries.

Regarding the impact of unemployment on well-being in Türkiye, several studies like Susanlı (2018), Kuzu, Elmas-Atay, and Gerçek (2019), Kanlıoğlu and Dumludağ (2022), Turgut and Ayhan (2022) and Ugur (2023) have examined the link between unemployment and well-being in general. However, they did not investigate whether the unemployed adapt to unemployment or not. Turgut and Ayhan (2022) dealt with the "normalization" of unemployment theoretically, but they do not rely on empirical findings. Furthermore, although many studies in other contexts show that men and women experience unemployment differently (Clark, Georgellis, and Sanfey, 2001; Blanchflower and Oswald, 2004; Van der



term unemployed, we can derive that people adapt to unemployment over time. Similarly, if the happiness of people who have found work in the last year is higher than that of those who are unemployed or have been unemployed for a long time, work can be considered a happiness-enhancing endeavor. To test these hypotheses, this study compared those who have been unemployed for more than 1 year with those who have been unemployed in the last year. Moreover, those who have found work in the last year are compared to those who are unemployed or have been unemployed for more than 1 year, with other background variables controlled for.

There may be other differences that we cannot observe among people of various work backgrounds. In particular, unemployed individuals may exhibit characteristics that distinguish them from other people, particularly employees, and they can be unemployed due to these differences. As mentioned in the Introduction section, there can be a link between unemployment and certain personality traits. In this case, the difference in happiness between the long-term unemployed and those who have been unemployed in the last 1 year may not be due to adaptation to unemployment but some personality traits leading to both long-term unemployment and unhappiness. To avoid such potential selection problems, the set of control variables is kept as large as possible, and in the regression analysis, we included many variables like household income bracket, subjective health score, satisfaction with friendships, and satisfaction with relationships with relatives.

We conducted a t-test to determine whether there is a statistically significant difference between employment categories regarding control variables.

Our study used t-tests to assess the statistical significance of differences between various groups (unemployed for long-term vs. unemployed in the last 1 year) regarding control variables. T-tests are commonly used for this purpose and are especially useful when comparing the means of two groups, as in our analysis. T-tests are based on independence, normality, and variance homogeneity assumptions.

Because the dependent variable, happiness score, has only five possible values, ordered probit models were used to estimate the regression models. Ordered probit models operate under two assumptions: (1) proportional odds assumption, which states that the effect of independent variables on the odds of an observation falling into a higher (more favorable outcome) versus a lower (less positive outcome) category is constant across all levels or categories of the dependent variable; and (2) independence assumption, which states that observations are independent of each other, as in the case of t-tests.

Several data cleaning and quality assurance steps were implemented during our research to ensure the validity and reliability of our dataset. First, all collected data were thoroughly examined to identify and rectify any missing values or inconsistencies. There were no missing data. Moreover, we conducted a range of data validation checks to confirm the data entry accuracy and to identify any potential errors. Our quality assurance procedures included cross-referencing data entries, validating data ranges, and verifying consistency among variables.

### **3.1. Data**

The data for this study came from the Life Satisfaction Survey (LSS). Every year, the Turkish Statistical Institute (TUIK) conducts the LSS using a stratified random sample of Türkiye's non-institutional adult population (18 years and older). The LSS is a cross-sectional survey that asks many questions about economic and social topics. An in-person interview is used to conduct the survey.

In this questionnaire, the following question measures the subjective well-being of people. "How happy are you when you think about your life as a whole?" There are five response categories, ranging from 1 (*very happy*) to 5 (*very unhappy*).

A series of questions were also asked to learn about the labor market status of the respondents. The first question required the respondents to indicate whether they had worked in a paid or unpaid job in the past week. The response categories are "worked" "did not work but still related to the job" and "did not work." Those



who answered that they did not work were questioned as to why. The options are (1) unemployed/looking for work, (2) seasonal work, (3) in education or training, (4) homemaker, (5) retired, (6) disabled or sick (unable to work), (7) old (not retired, he believes he is too old to work), (8) income holder, (9) family and personal reasons, and (10) others. In this study, those who did not work because they could not find a job in the last week were defined as unemployed, per the classification of TURKSTAT and ILO.

From the 2009 survey, participants were asked questions about the major changes in their lives in the last 1 year. One of these questions is whether the individual has lost his job within the last year. This question allows us to compare those who have been unemployed in the last year with those who have been unemployed for longer. In addition, for the following statement "I got a job in the last year," the participants were asked to indicate whether it applies to them by choosing the options "yes," "no," or "not relevant." Thus, people who have found work in the last year can be compared with those who have been unemployed for a long time.

We believe there was a problem in administering this question in 2009. First, the number of people who declared they found a job in the last year is only 54 in 2009. In addition, all those who stated that they had found a job in the last year chose their employment status as unemployed. However, to determine the effect of finding a job on happiness in comparison to being unemployed, job seekers must be employed at the time of reporting their happiness. Therefore, the data for the year 2009 were excluded from the analysis results.

The following variables were used as background variables: gender, age, last completed education level (primary school or below, secondary education or equivalent, high school or equivalent, and tertiary education), total household income measured in five categories, subjective health rating (5-point Likert scale) and satisfaction with friendships (5-point Likert scale).

Respondents are requested to report whether they experienced social pressure regarding their sex, marital status, age, and political view, among others.

One of these questions is about whether the unemployed respondents face social pressure due to being unemployed. The question was phrased as follows: "Do you feel any social pressure on you because of being unemployed or not working?" Response categories are (1) *Never*, (2) *Sometimes*, (3) *Often*, and (4) *Always*. This question can help explain why unemployment is a burden for the unemployed.

In 2010, the survey included 7,027 participants, whereas in 2020, the number of interviewees increased to a total of 10,103 individuals. The 2013 survey achieved provincial representativeness and encompassed 196,203 observations. In sum, across the years spanning 2010 to 2020, a combined 283,826 observations were gathered. However, because we are interested in unemployment and employment, we limited the sample to these two categories. In the analysis period, there are 13,969 unemployed and 102,749 employed people, for a total of 116,718 observations.

As TURKSTAT conducted this survey, the response rate is 100% because individuals are legally obliged to answer the questionnaire if they are picked.

#### **4. Findings**

Table 1 presents the descriptive statistics for the analysis sample. The first column displays the mean and standard deviation values for the unemployed. In the other columns, values are given for those who were unemployed in the last year and those who found work in the last year. We conducted a t-test to test whether there is a statistically significant difference between employment categories regarding control variables. The asterisk symbol in the second column shows a significant difference in the variable displayed in the rows between the unemployed and the unemployed in the last year. The asterisk symbol in the third column shows a significant difference with regard to the variable in the row between the unemployed and the employees who have found a job in the last 1 year.

**Table 1: Descriptive Statistics**

	Unemployed	Unemployed <1 year	Find a job < 1 year
Happiness Score	3.14 [1.00]	3.06 [1.01]***	3.45 [0.91]***
Very happy	0.05 [0.23]	0.05 [0.22]	0.09 [0.28]***
Happy	0.35 [0.48]	0.30 [0.46]***	0.43 [0.50]***
Neutral	0.35 [0.48]	0.38 [0.49]***	0.35 [0.48]
Unhappy	0.18 [0.38]	0.18 [0.38]	0.09 [0.29]***
Very unhappy	0.07 [0.25]	0.08 [0.28]***	0.04 [0.18]***
Age	33.66 [11.89]	32.97 [10.25]***	32.35 [10.42]***
Female	0.38 [0.49]	0.29 [0.45]***	0.35 [0.48]***
Income Category	1.92 [1.21]	1.96 [1.21]**	2.70 [1.37]***
Education Level			
Primary School or less	0.38 [0.49]	0.33 [0.47]***	0.33 [0.47]***
Secondary school or eq.	0.20 [0.40]	0.25 [0.43]***	0.22 [0.41]***
High school or equivalent	0.20 [0.40]	0.23 [0.42]***	0.25 [0.43]***
University or more	0.22 [0.42]	0.19 [0.39]***	0.20 [0.40]***
Marital Status			
Never Married	0.46 [0.50]	0.43 [0.50]***	0.39 [0.49]***
Married	0.48 [0.50]	0.51 [0.50]***	0.57 [0.50]***
Widowed	0.01 [0.10]	0.01 [0.08]***	0.01 [0.08]***
Divorced/Seperated	0.05 [0.21]	0.06 [0.23]***	0.04 [0.19]***
Subjective Health	3.69 [0.85]	3.71 [0.84]*	3.81 [0.75]***
Satis. with Friendships	3.92 [0.63]	3.91 [0.65]	3.94 [0.58]**
N	13,969	4,485	15,729

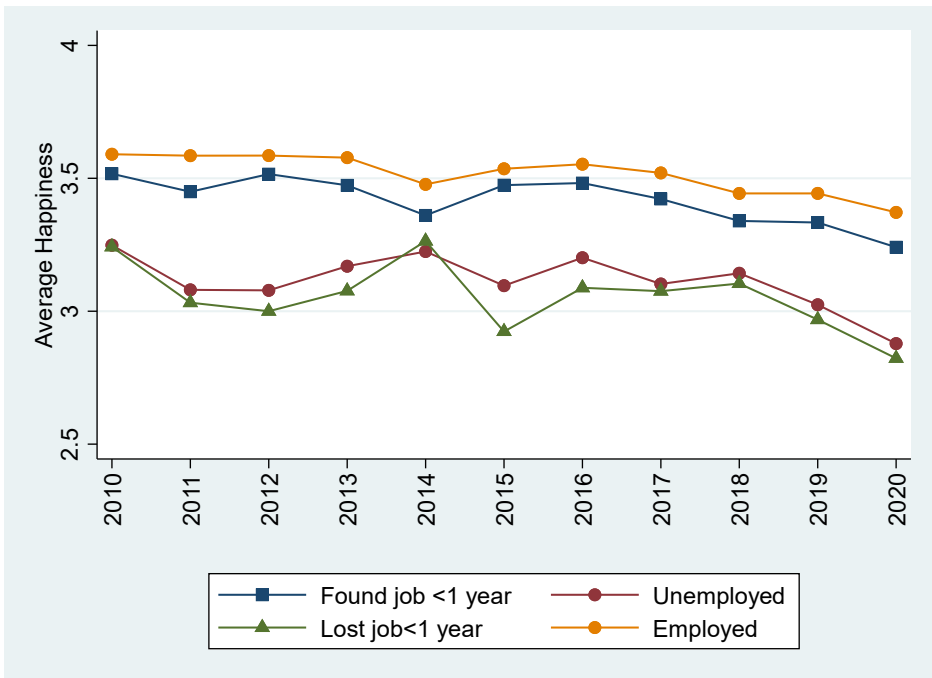
**Notes:** mean coefficients; sd in brackets, \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

According to Table 1, the most unhappy group is those who lost their jobs in the last year (mean = 3.06; SD = 1.01). Although the average happiness of the unemployed is 3.14, it is 3.45 for employees who have found work in the last year. Meanwhile, the average happiness of those who lost their job in the last year is statistically significantly lower than that of the unemployed. Similarly, the happiness of those who have found a job in the last year is statistically significantly higher than the average unemployed person. When looking at each category, in general, we found that the differences are statistically significant and those who lost their jobs in the last 1 year are more likely to fall into the unhappy and very unhappy categories. By contrast, those who have found a job in the last 1 year are more likely to fall into the happy or very happy categories. Although only 4% of those who found a job in the last year classify themselves as very unhappy, 8% of those who lost their job in the last year reported being very unhappy. Similarly,

9% of those who found a job in the last year reported being very happy, whereas only 5% of those who lost a job in the last year reported being very happy.

In Table 1, the values presented represent the averages of all individuals in our 2010–2020 analysis period. In Figure 1, the average happiness scores for each year in the 2010–2020 period are shown by labor market history. As shown in Figure 1, for the years 2010 and 2014, being unemployed in the last year and the average unemployed person’s happiness are very close, whereas the average happiness of people who lost their job in the last year is lower in all other years. In each survey year, however, the happiness of those who have found work in the last year is higher than that of the unemployed.

**Figure 1. Average Happiness Score by Labor Market History**



The results in Table 1 show statistically significant differences in terms of age, income category, education level categories, and marital status between those who have been unemployed in the last year, those who have found a job in the last year, and those who are in the overall unemployed category. These differences

have to be considered with regression analysis so one can clearly comment on possible adaptation to unemployment.

Table 2 presents the main findings of the regression analysis estimated by the ordered probit model. Four models have been estimated. Employees were used as the reference category in Model 1 to determine the impact of unemployment on happiness after taking into account control variables such as income, gender, marital status, and education level. Model 2 included the same control variables as Model 1 and used the unemployed for more than 1 year as the reference category. The coefficient of the variable “unemployed <1 year” allows us to determine how the happiness of those who have been unemployed in the last year differs from those who have been unemployed for more than 1 year. In Model 3, the average happiness of people who have found a job in the last year compared to the unemployed reference category are presented after controlling for the same background variables. Meanwhile, Model 4 compares those unemployed for over a year with those who have found work in the last year. The hypothesis to be tested in Model 4 compares long-term unemployment with finding a job. That is, if people get used to unemployment to some extent over time, then it allows one to determine whether the person should be guided to find a job or get used to unemployment over time for his/her own happiness. Table 2 only shows the coefficients of the variables related to unemployment experiences; the coefficients of the other control variables are shown in Appendix Table A-1. To allow for heterogeneity in the error term, we estimated the models with robust standard errors, and these results are presented in the tables.

**Table 2: Happiness Regression Output, Ordered Probit Model**

	(1)	(2)	(3)	(4)
Unemployed	-0.341*** (0.01)			
Lost job <1 year		-0.115*** (0.02)		
Found job <1 year			0.222*** (0.01)	
Found job <1 year				0.186*** (0.02)
<b>Reference Category</b>	<b>Employed</b>	<b>Unemployed &gt;1 year</b>	<b>Unemployed</b>	<b>Unemployed &gt;1 year</b>
<b>Log-likelihood</b>	-137298.96	-18316.428	-37602.181	-31627.79
<b>LR test</b>	1093.16	33.25	277.47	152.47
<b>p-value</b>	0.00	0.00	0.00	0.00
Pseudo R-squared	0.059	0.051	0.058	0.055
N	116,687	13,969	29,698	25,213

**Notes:** Robust standard errors are given in parentheses, \* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01.

All models control for age, age squared, gender, household income, marital status (categories: never married, married, widowed and divorced), education, subjective health assessment, satisfaction with friendships, and a total of 10 dummy variables for each survey year.

When marginal effects are calculated using Model 1, even after controlling for age, gender, income status, education, marital status, and other variables, the unemployed are 5% less likely to be “very happy” and 7% less likely to be “happy” than employees, and this effect is statistically significant at the 1% significance level. We also conducted the likelihood ratio (LR) test to provide a more comprehensive understanding of the results. The LR test statistic is 1093.16, and the p-value is 0.00, indicating that Model 1 shows a better fit to the data. Thus, we can conclude that unemployment is not conducive to happiness.

The same background variables are controlled for in Model 2, those who have been unemployed for more than a year are 3% less likely to be “happy” and 2% less likely to be “very happy” compared to those who have been unemployed for more than a year. These marginal effects are also statistically significant at the 1% significance level. In our analysis, we used the LR statistic (LR = 33.25) to compare the fit of the null model, which assumes no relationship between being unemployed in the last year and happiness score, to the alternative model, which includes a relationship between being unemployed in the last year and happiness score. The LR test yielded a statistically significant result (p < 0.01), indicating that

the alternative model, which includes a relationship between being unemployed in the last year and happiness score, fits the data significantly better than the null model. Thus, as the more recently unemployed are less likely to be happy compared to the longer-term unemployed, we can derive that people become somewhat accustomed to unemployment over time. That is, the fact that some of the long-term unemployed individual's happiness is slightly higher than those who lost their job in the last year suggests that the unemployed adapt to unemployment, at least in terms of their happiness.

This adaptation may reduce their need to look for work. However, deciding whether to look for work or get accustomed to unemployment necessitates determining which is better for their happiness. In Models 3 and 4, those who have found work in the last year are compared to the unemployed and long-term unemployed to answer this question. According to the results of Models 3 and 4, those who have found a job in the last year are 5% more likely to be happy and 3% more likely to be very happy compared to the unemployed, in general. Moreover, they are 4% more likely to be happy and 3% more likely to be very happy compared to those who have been unemployed for more than a year. For Model 3, we calculated an LR statistic ( $LR = 277.47$ ) to compare the null model (no relationship between having found a job in the last year and happiness score) with the alternative model (having found a job in the last year and happiness score). The LR test was highly significant ( $p < 0.01$ ), indicating that Model 3 outperforms the null model significantly. The LR test ( $= 152.47$ ) was also performed when Model 4 was compared to the null model, and the LR test was statistically significant ( $p < 0.001$ ). These results highlight the benefits of finding work over being unemployed for an extended period in terms of well-being. Therefore, we can conclude that for the happiness of individuals, working is superior to being accustomed to unemployment. We can also say that, although people get used to being unemployed, their well-being is always lower than that of the employed. In other words, even if the unemployed gets used to unemployment, it is not fully equivalent to the happiness of working individuals.

To summarize the coefficients of the other variables presented in Appendix Table A-1, a U-shaped relationship exists between age and happiness, consistent with the literature on subjective well-being. Women are significantly happier than men, again in agreement with other studies. In terms of marital status, married people are the happiest. Subjective health status and friendship satisfaction are also significantly positively related to happiness. The coefficients of these two variables are higher than those of other variables. These results mean that good social relationships and health are important determinants of a person’s happiness. To determine whether a gender-related difference exists in adaptation to unemployment, the main variables of interest in all models and the interaction term of the “male” dummy variable were added to the models and re-estimated. Table 3 displays the results of these regression models.

**Table 3: Happiness Regression Results by Gender**

	(1)	(2)	(3)	(4)
Unemployed	-0.302*** (0.02)			
Unemployed*Male	-0.061*** (0.02)			
Lost job <1 year		-0.105*** (0.03)		
Lost job <1 year *Male		-0.015 (0.04)		
Found job <1 year			0.197*** (0.02)	
Found job <1 year *Male			0.039 (0.03)	
Found job <1 year				0.175*** (0.02)
Found job <1 year *Male				0.018 (0.03)
<b>Reference Category</b>	<b>Employed</b>	<b>Unemployed &gt;1 year</b>	<b>Unemployed</b>	<b>Unemployed &gt;1 year</b>
<b>Log-likelihood</b>	-137294.39	-18316.36	-37601.04	-31627.59
Pseudo R-squared	0.059	0.051	0.058	0.055
N	116,687	13,969	29,698	25,213

**Notes:** Robust standard errors are given in parentheses, \* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01. All models control for age, age squared, gender, household income, marital status (categories: never married, married, widowed and divorced), education, subjective health assessment, satisfaction with friendships, and a total of 10 dummy variables for each survey year.



According to Model 1, unemployment negatively affects women's happiness compared to being employed, as the coefficient of unemployed dummy variable is negative and statistically significant. However, since the term of interaction between the unemployed and men is negative and statistically significant, we can argue that unemployment affects men more negatively than women. According to Model 2, the interaction term's coefficient is negative but not statistically significant. This means that, when compared to being unemployed for a long time, being unemployed for less than a year has no discernible effect on happiness between men and women. In other words, there were no differences between the genders in terms of getting used to unemployment over time. Model 3 shows that, compared to being unemployed, finding a job is more positively associated with happiness for men than for women, as the interaction term is positive but not meaningfully different between genders. When the long-term unemployed are used as the reference group in Model 4, the employment and male interaction term remains positive but is no longer statistically significant.

**Table 4: Happiness Regression Results by Age Groups**

	(1)	(2)	(3)	(4)
Unemployed	-0.238*** (0.02)			
Unemployed* Middle-aged	-0.144*** (0.02)			
Unemployed* After middle-aged	-0.128*** (0.03)			
Unemployed<1 year		-0.077** (0.04)		
Unemployed<1 year*Middle-aged		-0.069 (0.04)		
Unemployed<1 year* After middle-aged		-0.020 (0.05)		
Found job<1 year			0.210*** (0.02)	
Found job<1 year*Middle-aged			0.014 (0.02)	
Found job<1 year* After middle-aged			0.023 (0.03)	
Found job<1 year				0.188*** (0.02)
Found job<1 year*Middle-aged				-0.008 (0.03)
Found job<1 year*After middle-aged				0.005 (0.03)
<b>Reference Category</b>	<b>Employed</b>	<b>Unemployed &gt;1 year</b>	<b>Unemployed</b>	<b>Unemployed &gt;1 year</b>
<b>Log-likelihood</b>	-137277.89	-18314.79	-37601.91	-31627.64
Pseudo R-squared	0.059	0.051	0.058	0.055
N	116,687	13,969	29,698	25,213

**Notes:** Robust standard errors are given in parentheses, \* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01, All models control for age, age squared, gender, household income, marital status (categories: never married, married, widowed and divorced), education, subjective health assessment, satisfaction with friendships, and a total of 10 dummy variables for each survey year.

To determine whether there is a difference in adaptation to unemployment with respect to different age groups, the interaction terms of the main variables of interest with age categories are added to the regression models. For this, those under 25 years of age are treated as a reference category, and “middle-aged” dummy variables are defined for people between 25 and 40 years of age, and “after middle-aged” dummy variables were defined for those over 40. Models that include these interaction terms are available in Table 4. According to Model 1, unemployment negatively impacts the happiness of all three age groups. However, we can say that it has a greater negative impact on middle-aged and

older people. According to Model 2, losing a job in the last year is negatively related to happiness for all three age groups. It does not affect different age groups differently. According to Models 3 and 4, there was no difference between age groups in terms of happiness brought about by finding a job.

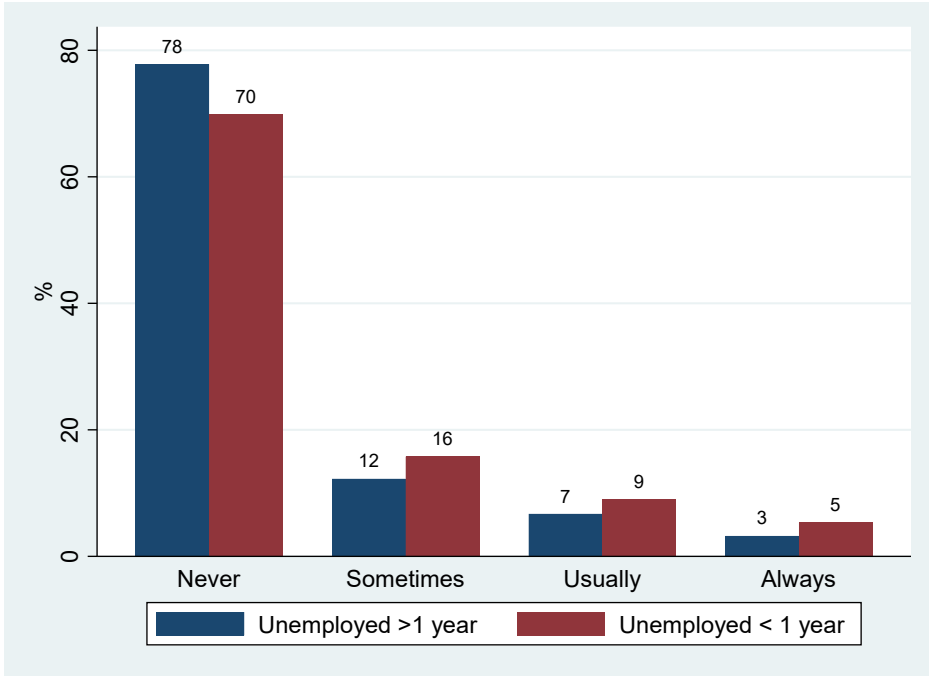
**Table 5: Happiness Regression Results by Marital Status**

	(1)	(2)	(3)	(4)
Unemployed	-0.322*** (0.04)			
Unemployed * Never married	0.056 (0.05)			
Unemployed *Married	0.025 (0.05)			
Unemployed *Married*Male	-0.146*** (0.03)			
Unemployed<1 year		-0.017 (0.08)		
Unemployed<1 year* Never married		-0.094 (0.09)		
Unemployed<1 year* Married		-0.036 (0.10)		
Unemployed<1 year* Married*Male		-0.101* (0.06)		
Found job<1 year			0.156*** (0.06)	
Found job<1 year* Never married			0.035 (0.06)	
Found job<1 year* Married			0.069 (0.06)	
Found job<1 year* Married*Male			0.042 (0.03)	
Found job<1 year				0.141** (0.06)
Found job<1 year* Never married				0.022 (0.07)
Found job<1 year* Married				0.051 (0.07)
Found job<1 yıl* Married*Male				0.028 (0.03)
<b>Reference Category</b>	<b>Employed</b>	<b>Unemployed &gt;1 year</b>	<b>Unemployed</b>	<b>Unemployed &gt;1 year</b>
<b>Log-likelihood</b>	-137266.03	-18313.99	-37597.42	-31625.68
Pseudo R-squared	0.059	0.051	0.058	0.055
N	116,687	13,969	29,698	25,213

**Notes:** Robust standard errors are given in parentheses, \* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01, All models control for age, age squared, gender, household income, marital status (categories: never married, married, widowed and divorced), education, subjective health assessment, satisfaction with friendships, and a total of 10 dummy variables for each survey year.

The effect of unemployment on happiness is also examined by marital status. However, because societal norms assign the role of breadwinner to married men, these norms are expected to affect married men more negatively when they are unemployed. A triple interaction term was added to the models to observe this effect. This interaction term has a value of 1 for unemployed married men and 0 for everyone else. The results presented in Table 5 confirm that unemployment affects married men, especially, more negatively. According to Model 1, unemployment affects especially married men more negatively than employees. According to Model 2, losing a job in the last year affects married men more negatively than long-term unemployed at 10% significance level. Meanwhile, Models 3 and 4 showed no specific differences for married men concerning finding a job.

In addition, we present suggestive evidence in Figure 2 that supports the result presented in Model 2 of Table 2: that is, the happiness of those unemployed in the last year was lower than those unemployed for more than 1 year. As stated in the methodology section, the unemployed were asked whether they felt any social pressure as a result of their unemployment. Figure 2 depicts the distribution of feelings of social pressure caused by unemployment for those who have been unemployed for less than a year and those who have been unemployed for more than a year.

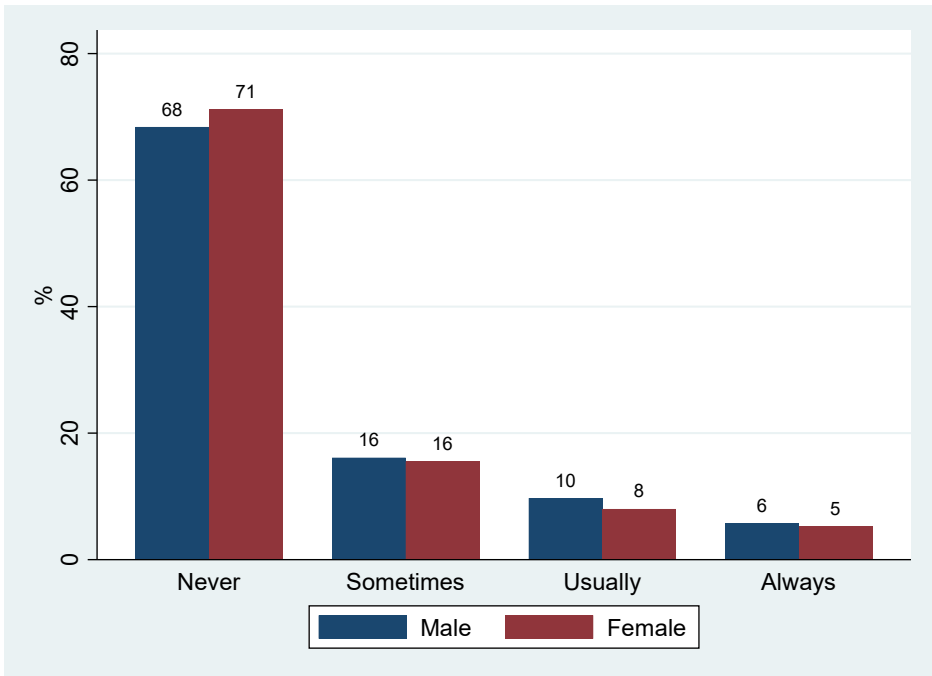
**Figure 2. Feelings of Social Pressure by Unemployment Duration**

According to Figure 2, roughly 70% of both long-term and short-term unemployed people say they do not feel any social pressure. However, those unemployed for less than a year are more likely to feel social pressure, the percentage of choosing “sometimes”, “frequently,” and “always”, is higher than those unemployed for more than a year. This shows that unemployment is more evident in the perceptions of those who have been unemployed for less than a year. A one-way analysis of variance (ANOVA) test was performed, and the findings show that the differences are significant (F-test: 103.44; p-value: 0.00). The fact that those who have been unemployed recently are unhappier also coincides with the fact that they feel more pressure due to unemployment.

Looking at the gender distribution of social pressure experience among people who have been unemployed in the last year, as shown in Figure 3, we found that 71% of women state that they have never felt social pressure, whereas 68% of men say they have never felt social pressure. Similarly, the percentage of

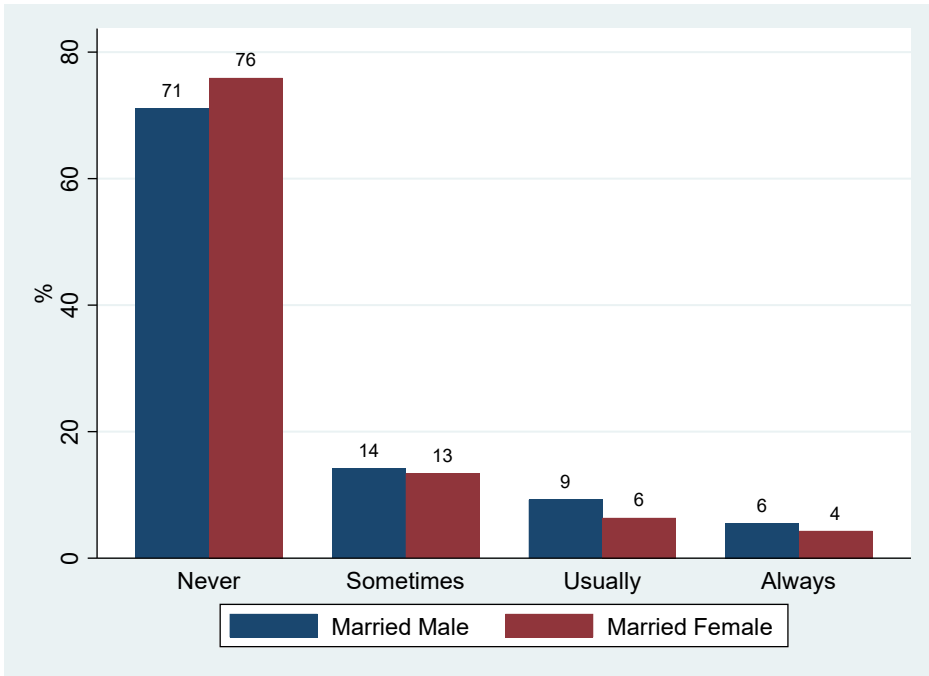
men who always feel social pressure is slightly higher than that of women. Although women have a lower sense of social pressure, the difference between the sexes is not significant at the 5% significance level, according to the one-way ANOVA test results (F-value: 3.37 p-value: 0.07).

**Figure 3. Feelings of Social Pressure Due to Recent Unemployment, by Gender**



In Figure 4, the distribution of the social pressure feelings of people who have been unemployed in the last year is given for married men and women. The differences become more pronounced when considering the marital status between the sexes. Figure 4 shows that married men feel more pressure than married women, and these results are statistically different from the one-way ANOVA test (F-value: 3.81 p-value: 0.05).

**Figure 4. Feelings of Social Pressure Due to Recent Unemployment by Gender & Marital Status**



## 5. Discussion and Conclusion

This research shows that unemployment is not good for people's happiness. The reason is that even after controlling for many background variables, the happiness of the unemployed is significantly lower than that of the employed. If full adaptation existed, there should not be a significant difference between the employed and the unemployed. This result is consistent with studies from many countries (e.g., Clark and Oswald, 1994; Winkelmann and Winkelmann, 1998; Böckerman and Ilmakunnas, 2006) and from Türkiye (e.g., Susanlı, 2018; Kuzu et al., 2019; Kanlıoğlu and Dumludağ, 2022; Uğur, 2023). These results imply that unemployment should not be perceived as only a loss of income, as the unemployed also lose their happiness. People dislike unemployment; hence, they may accept the first job they come across in the job search process to eliminate unemployment as soon as possible instead of looking for a job for an optimal amount of time. This may result in them working in non-optimal jobs.

Second, although unemployment is undesirable, people become accustomed to it over time. Because if there were no adaptation, happiness should not vary according to the length of unemployment. However, the findings show that those who have recently been unemployed are less happy than those who have been unemployed for a long time. This indicates that some adaptation has occurred. Moreover, feeling social pressure from unemployment is much more salient in people recently losing their jobs. This indicates that those who have been unemployed for a longer period are somewhat getting accustomed to unemployment. Clark, Diener, Georgellis, and Lucas (2008) and Clark and Georgellis (2013) also documented that people adapt to some extent to unemployment.

Another finding is that men are more affected by unemployment than women. However, no significant differences were found between men and women in terms of the impact of recently losing a job. Nonetheless, losing a job recently has a greater negative impact on married men than married women. These results suggest that (1) the negative effect of unemployment lasts longer for married men than for married women, and (2) the burden of unemployment is heavier especially for married men. Using data from many European countries and Germany, Van der Meer (2014) and Clark et al. (2008), respectively, concluded that unemployment affects men more than women. Moreover, the results obtained by Rudolf and Kang (2015) using data from South Korea show that unemployment negatively affects the happiness of men more than women. The fact that the effects of unemployment differ between the sexes was also reported by Jahoda et al. (1933). When married men in Türkiye lose their jobs, their happiness may suffer because a significant part of their identity, and thus their sense of belonging, is interrupted. According to Jahoda et al. (1933), even if women lose their jobs, their identities and sense of belonging may suffer less damage because they are preoccupied with many domestic chores.

One of the factors that prevents full adaptation to unemployment may be the value judgments in society. In this study, we document that approximately 25% of unemployed individuals report feeling some social pressure. These feelings are



heightened for those who have lost their job within the last year. Many people support statements that work is a societal duty in Türkiye. Under these circumstances, the unemployed may not fully adapt because they are deviating from the social norm to work, which may result in social disapproval. Research results also show that people living in areas with high economic inequality place a higher value on achievement and power and a lower value on benevolence (Du, Götz, King, and Rentfrow, 2022). Türkiye is close to the group of countries with medium-high levels of inequality (Ugur, 2021b). Through this channel, it may be difficult for the unemployed to come to terms with their unemployment.

It would be useful to compare our results on adaptation to unemployment to those of other well-being studies. One of the most robust findings of well-being studies is that people adapt to some degree to both good and bad experiences (e.g., Cummins, 2000; Diener et al., 2009). Our findings also support this literature. However, just because people adapt to good or bad experiences does not mean that the initial negative or positive “flow” is unimportant. In addition, adaptation is largely incomplete, and it should be noted that the rate of adaptation varies from person to person.

The strengths of the data used in this study include a large sample of over 290,000 individuals and its national representativeness of Türkiye. Nevertheless, as with any research, it is crucial to acknowledge and elaborate on the study's limitations. First, we must highlight the challenge of establishing causal relationships. This limitation stems from the cross-sectional nature of the dataset. It is important to emphasize that cross-sectional data only captures a snapshot in time and cannot provide insights into causality. Future research should consider panel datasets to address this concern, allowing for a more robust examination of causal effects. Tracking changes in individual well-being over time while controlling for time-invariant factors, we could gain a better understanding of how unemployment impacts individuals. Second, it should be noted that the survey question used in this study only identifies individuals who lost their jobs within the last year. This temporal constraint limits our ability to conclude long-term adaptation to unemployment lasting longer than a year. Future research

could explore adaptation processes beyond this 1-year period, providing a more complete picture of how people adjust to job loss.

The results of this research underscore the importance of considering the well-being of the unemployed and possible policy interventions that can improve their happiness and overall quality of life. Although it is clear that some level of adaptation to unemployment occurs over time, our findings also show that individuals who find new employment within the first year tend to be happier than those who have been unemployed for a long time. This suggests that policies aimed at assisting unemployed people to reintegrate into the labor market can produce more immediate and positive results in terms of their well-being than waiting for the unemployed to get used to unemployment. Therefore, policymakers must focus on strategies that expedite the job search process, reduce barriers to reemployment, and provide the necessary support to those transitioning back into the workforce.

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**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The author has no conflict of interest to declare.

**Grant Support:** The author declared that this study has received no financial support.

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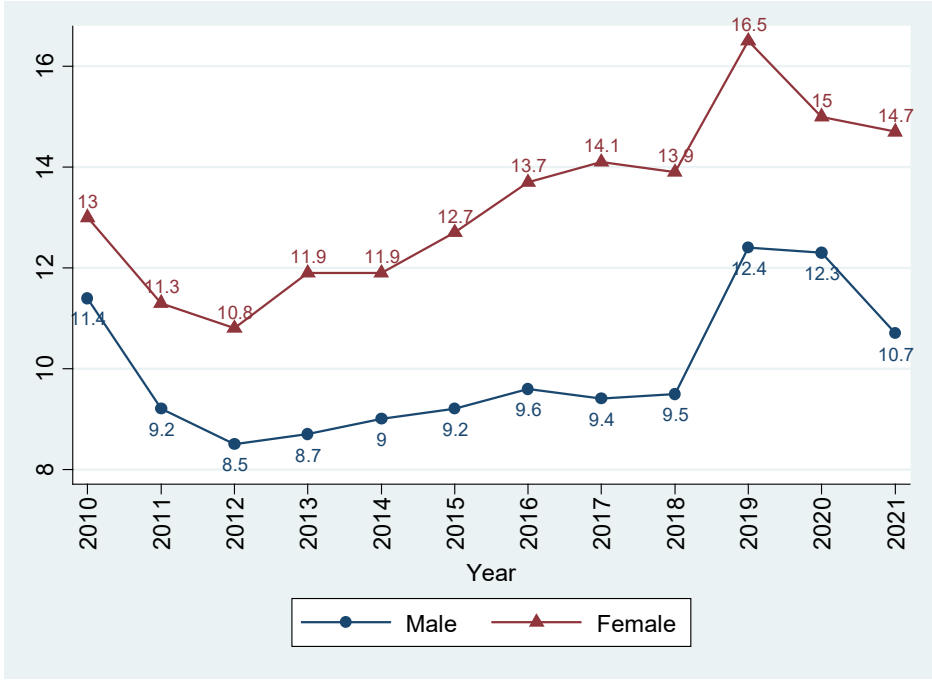
**Table A-1: Happiness Regression Results, Other Coefficients**

	(1)	(2)	(3)	(4)
Age	-0.055*** (0.00)	-0.065*** (0.01)	-0.064*** (0.00)	-0.060*** (0.00)
Age squared	0.001*** (0.00)	0.001*** (0.00)	0.001*** (0.00)	0.001*** (0.00)
Female	0.107*** (0.01)	0.121*** (0.02)	0.120*** (0.01)	0.110*** (0.01)
Household Income	0.088*** (0.00)	0.091*** (0.01)	0.090*** (0.01)	0.085*** (0.01)
Never married (ref: Divorced)	0.193*** (0.02)	0.212*** (0.05)	0.223*** (0.03)	0.231*** (0.04)
Married	0.578*** (0.02)	0.506*** (0.04)	0.554*** (0.03)	0.569*** (0.04)
Widowed	0.126*** (0.04)	0.217** (0.11)	0.165** (0.08)	0.119 (0.09)
Education	0.014*** (0.00)	-0.002 (0.01)	0.009 (0.01)	0.014* (0.01)
Subjective Health	0.331*** (0.00)	0.296*** (0.01)	0.302*** (0.01)	0.298*** (0.01)
Satisfaction with Friendships	0.280*** (0.01)	0.228*** (0.02)	0.241*** (0.01)	0.250*** (0.01)
F test statistic	774,55	92,64	223,16	171,65
Pseudo R-squared	0.059	0.051	0.058	0.055
N	116687	13969	29698	25213

**Notes:** Robust standard errors are given in parentheses, \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

All models control for age, age squared, gender, household income, marital status (categories: never married, married, widowed and divorced), education, subjective health assessment, satisfaction with friendships, and a total of 10 dummy variables for each survey year.

Figure A-1. Unemployment Rates by Gender in Türkiye



Source: EUROSTAT (2022)



RESEARCH ARTICLE

# The Importance of Space in Comparative Capitalism Analyses: A Comparison of Varieties of Capitalism and Variegated Capitalism Approaches\*

Ferda UZUNYAYLA<sup>1</sup> 

## ABSTRACT

In comparative capitalism (CC) discussions, the main research focus of different approaches (varieties of capitalism [VoC], post-VoC, variegated capitalism) is formed along the axis of state-capital relations. When considering world market integration, interrelations and tensions between different scales, and state spatial restructuring, the exploration of the diverse patterns of accumulation also requires a focus on the spatial dimension of state-capital relations. In this respect, this study aims to examine how space is handled in capitalist diversity approaches by comparing them in terms of their limitations and the possibilities they offer in their spatial analysis. The variegated capitalism approach is argued to provide a more complex analytical framework due to how it involves the spatial dimension at multiple scales to deal with the analysis of state spatial interventions by focusing on contradictions related to the production of space and also by considering the uneven spatial development in the analysis of capitalist variation.

**Keywords:** Varieties of capitalism approach, Variegated capitalism approach, Spatial restructuring, Geographical variability

**JEL Classification:** P1, P51



DOI: 10.26650/ISTJECON2023-1272574

\* I would like to thank Prof. Dr. Alexander Ebner for his guidance and suggestions regarding the comparative capitalism debate. The usual disclaimer applies.

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**Submitted:** 28.03.2023

**Accepted:** 29.12.2023

**Citation:** Uzunyayla, F. (2023). The importance of space in comparative capitalism analyses: a comparison of varieties of capitalism and variegated capitalism approaches. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 811-836.

<https://doi.org/10.26650/ISTJECON2023-1272574>



## Introduction

The heterogeneity of capitalism has so far been discussed in various approaches in order to understand the diverse patterns of capital accumulation in different economies using a number of concepts such as variety, diversity, and variegation. Questions arise in these comparative political economy debates based on the conceptualization of institutions in the context of the state's capacities for economic challenges, institutional change, differences in firms' structures, strategies, and technological progress in the institutional approach, while the critical approach has these issues take place around the contradictions and power relations of capitalism. Although the main tendency of these discussions occurs along the axis of state-capital relations, the spatial dimension of this relation and spatial restructuring play a significant role in understanding capitalist variations. In this respect, this study aims to examine how space is handled in capitalist diversity approaches by comparing them in terms of their limitations and the possibilities they offer in their spatial analyses. The variegated capitalism approach has been argued to provide a more complex analytical framework due to how it involves the spatial dimension at multiple scales, how it deals with the analysis of state spatial interventions, its focus on contradictions related to the production of space, and also how it takes into consideration uneven spatial development in the analysis of capitalist variation.

The importance of involving space in discussions of capitalist diversity can be explained twofold. First, the national economy has been considered as an analytical unit, and type-by-type analyses have been made in the literature on comparative capitalism. When considering world market integration, coevolution, and dependency relations, however, case-by-case or type-by-type analyses are insufficient. Exploring the diverse patterns of accumulation requires considering different spatial scopes such as territory, place, scale, the world economy, and most importantly the analysis of interrelations and tensions among different scales. Second, the peculiarities of accumulation can be understood regarding not only institutional but also geographical variability. Because the state intervenes in the economy through spatial arrangements as well as institutional arrangements



for maintaining capitalist accumulation, state spatial restructuring leads to a spatially varied character in capitalist formations.

In this respect, in addition to the state-capital relations, the interrelationships between the state, space and capital should be added to capitalist variety discussions. The production of more variegated spaces through state spatial configurations under capitalism relies upon a contradictory nature. Hence, for a comprehensive survey, a theory of capitalist variation should involve the production of space with its contradictory nature. The production of space, as pointed out by Lefebvre (1991), is arranged by the state's intervention according to the interests of capital, with contradictions between "the capacity to conceive of and treat space on a global (or worldwide) scale on the one hand, and its fragmentation by a multiplicity of procedures or processes" (p. 375), or in other words, a binary relationship between the fragmented character of space and the global space (the homogeneous character of space) (p. 355), and "the clash between a consumption of space which produces surplus value and one which produces only enjoyment" (p. 359), namely between capitalist utilizers and community users. With regard to Hudson (2001), the emphasis of such a contradiction is as such: there is a tension between the space that is defined "as a product of stretched out social relationships" and the place that is defined "as the condensation of intersecting social relationships in a specific time-space context" (p. 282). While the production of space is related to the imperative of keeping the commodity production process driven by profit-seeking capital in a capitalist society, people look for meaningful places that go beyond the profit-making concern in production spaces. In this process, profit-seeking activities create devalored and destructed places. However, these places still retain their meaning for people in terms of social relations and living environment. Thusly, tension emerges between the people's search for meaningful places and capital's search for profitable places. As a result, Lefebvre (2009, p. 227) denoted that spatial restructuring occurs alongside collaboration or amid conflict between the activities of public authorities and private interests, resulting in the emergence of both a fragmented and homogenous space, a paradoxical space. The homogeneous character of space comes from considering space as exchangeable

and equivalent units to buy and sell it. The fragmented character of space arises from its sale in the form of parcels. These features are formed “both within the realm of the commodity, in which everything is equivalent, and within the realm of the State, in which everything is controlled” (p. 233). These two irreconcilable features of space, homogeneous and broken-up, come together through the governance of the state. The state both produces and controls the fragmentation (segregation, dispersion, localization) with interventions of varying intensity (Lefebvre, 1991). The state identifies the chains of equivalence for the sale of space as a commodity.

The production of space may create a vicious circle that feeds both the tax revenues of the state and the surplus value of capitalists, and in doing so produces another space, called ‘productive consumption’ by Lefebvre (1991, p. 374). However, Lefebvre (2009, p. 244) underlines that the state cannot ascribe a spatial cohesion to the different phases of capital accumulation (from the production of surplus value to its realization) due to the conflictual character of this process in relation to the divergent interests of industrial capital, commercial capital and financial capital. It only manages space to hinder the effects of the fragmented space that may entail a broken society. Eventually, Lefebvre remarks that the shape of capitalistic space is formed within the realm of commodity and the realm of the state, with the contradictions emerging from goals of the investors, speculators and the state.

David Harvey (2001, p. 25), another prominent name in discussions of spatial configuration, also focuses on the production of space and its contradictory nature. Capital builds a fixed space with physical infrastructures, houses, built environments consisting of factories and so on to eliminate spatial barriers and create liberty of movement; however, at a later point it then destroys this space in order to create new opportunities for accumulation in new spaces. The destruction of geographical landscapes for the creation of the new, the creative destruction of whole landscapes, and increased fragmentation become a major concern for the survival of capitalism (1996, p. 245). This creates a dilemma that arises from the fixity of spatial organization with the production of immovable

and expensive infrastructure projects. If capitalists seek more profitable locations, there can be place-specific devaluation of assets (1978, pp. 123–124; 1992, p. 232; 1994, p. 150). According to Harvey, this process leads to the production of more variegated spaces in which a new resource market forms and territorial division of labor develops under the logic of uneven capital investment.

As another important contributor to this discussion, Neil Brenner (2004, pp. 74–81) illuminates the relationship between the state and space by focusing on scale problem. He regards state spatial process not as a territorial container or platform, but as an arena that relies on constantly changing political strategies and socio-spatial interaction. State spatiality is seen through sociopolitical struggles and regulatory projects as a socially produced and changing process. Thusly, the spatial form of the state space is based on a polymorphic geographical form that cannot be reduced to fixed, unchanging territoriality. This means that state space in the narrow sense relies on internal territorial differentiation and internally diversified institutional forms. In the integral sense, it rests on spatial targeting -such as the acceleration of the circulation of capital, the maintenance of territorial cohesion, or the enhancement of particular locational assets - carried out through state institutions and geographically changing state interventions . In the context of all these discussions, it can be said that state spatial arrangements for the maintenance of the capitalist accumulation process create a variegated geographical space. Therefore, the analysis of capitalist variation requires the consideration not only of state-capital relations but also of the spatial restructuring and spatial dimension of state-capital relations.

In light of these considerations, this paper discusses the analysis of geographical scope in the varieties of capitalism approach (VoC) and the post-VoC approach and compares them with variegated capitalism approach's discussion of capitalist variety. The paper is organized as follows: firstly, it gives a short review of spatial analysis of the VoC approach and then demonstrates its weakness in the elaboration of spatial dimensions. Secondly, in the face of criticism of the VoC approach, it discusses how the post-VoC generation has made advances in its analysis of geographical scope and presents deficiencies of this approach. It then

deals with the variegated capitalism approach in the last section and depicts how this approach reveals the shortcomings of the institutional approach by developing a multiscalar perspective, placing the space with its contradictory nature in variety debates, and involving uneven spatial development in the analysis of variation.

### **Spatial Dimension in the Varieties of Capitalism Approach**

Comparative capitalism (CC) literature challenged the convergence thesis of globalization theorists based on the development of a single model of capitalism (liberal Anglo-American model) with theoretical and empirical evidence (Hay & Bailey, 2019, p. 2; Crouch, 2005, p. 26; Bruff & Ebenau, 2014, p. 5; Jackson & Deeg, 2006, p. 5). CC scholars questioned capitalist diversity by highlighting the national institutional configurations. Accordingly, CC research has dealt with the differences in the organization of national economies (Hall & Gingerich, 2009, p. 449), the comparative institutional advantage that shapes the strengths and weaknesses of economic activities, the impact of institutional variables on the collective supply of inputs (e.g., skills, capital) (Jackson & Deeg, 2006, p. 6), the modes of state intervention in organizing production, distribution and trade (Jessop, 2015, p. 73), and institutional complementarities among different spheres of the economy (Hall & Soskice, 2001, p. 18). Behind such inquiries lies the claim that the distinct institutional configurations of national economies determine their economic performances and advantages, and accordingly that 'capitalism varies' (Hay, 2020, p. 302). According to CC scholars, the divergences among national economies are tied to differences in their development paths.

The VoC approach developed by Peter Hall and David Soskice (2009, p. 27; 2001, p. 8) contributes to the discussion of comparative capitalisms through the consideration of the spatially varied character of advanced countries. In the analysis of geographical variability, VoC scholars deal with the national level as a fundamental analysis unit. In order to understand the national competitive strength of economies, they focus on institutional complementarities in two types of coordination mechanism, defined as market coordination (competitive

relations, competitive markets) and strategic coordination (cooperative relations, regulated markets; Hall & Gingerich, 2009, p. 452). According to VoC scholars, institutional complementarities in these coordination mechanisms generate diverse firm behaviors and investment patterns in the whole economy (Amable, 2003, p. 60; Hall & Gingerich, 2009, p. 453). On this basis, a particular combination of institutional forms (among labor markets, corporate governance, education and training) is explored, with the aim of finding key differences among national varieties of capitalism (Hall & Soskice, 2009, p. 24). Furthermore, in the VoC framework, the geographical scope of variation analysis only involves advanced capitalist countries, such as the United Kingdom, the United States, Germany, Japan and so on. They are grouped into liberal market economies (LMEs) and coordinated market economies (CMEs). As models of capitalism, it is assumed that these two ideal types can be adopted by other capitalist countries.

In this respect, it should be noted that VoC scholars deal with state-capital relations at the national scale with a presumption of a unified national-economic space. As a result of its analytical focus on methodological nationalism, the VoC framework has faced sharp criticism for not developing a deep understanding of the spatial dimension beyond the national scale, and for restricting the geographical scope to advanced capitalist countries. These criticisms will be discussed in the next section.

### **Criticism of the VoC Approach in Spatial Analysis**

Although the VoC approach has contributed to the comparative capitalism discussions by analyzing the diversity of development patterns across capitalist countries contrary to the argument of globalization theorists of convergence upon a neoliberal Anglo-American model of capitalism, the spatial dimension of variation analysis has not been handled deeply in this framework. The weakness of this approach in spatial analysis can be examined in terms of four aspects: first, the neglect of internal diversity and multiscale analysis (Peck & Theodore, 2007, p. 759; Ebner, 2015, p. 2; Peck, 2002); second, the adaptability of LME as a model of capitalism to other countries with the same results (Jessop, 2012, p. 231), third,

limitations in theorizing the geographies of neoliberalization and the neglect of uneven spatial development (Brenner et al., 2010, p. 191; Peck & Theodore, 2007, p. 762); and fourth, the neglect of emerging market economies (Feldmann, 2018, p. 29; Ebenau, 2015, p. 48; Nölke & Vliegthart, 2009, p. 671; Gould et al., 2015, pp. 593–94; Peck & Theodore, 2007, p. 750).

In contemporary political-economic relations, firstly, the emergence of new complex connections among the local, regional and cross-boundary levels has revealed the inadequacy of the analysis of scalar spatial configurations at the national level in the VoC approach. Accordingly, the exploration of subnational diversity alongside national diversity and a multiscale analysis are required to understand capitalist varieties (Ebner, 2015, p. 2; Peck & Theodore, 2007, pp. 758–759). A relational view of scale underlines that no “theoretically pregiven or historically fixed” (Peck, 2002, p. 337) scale exists for social and regulatory processes. For example, although the national scale in the Keynesian welfare state is presented for economic management and political struggles, this is not a historically determined scale. In this regard, one can say that particular scale fixes arise as a result of political constructions, social processes, and power relations. Thusly, a relational analysis of scale refers to considering the geographic, historical, and institutional contingencies such as the transformation of the national welfare state through rescaling, which leads to interscale relations between local programs and transnational policies, or in other words, the simultaneous articulation of the global and local. Such a relational analysis of scale avoids “an absolutist and categorical approach in which political-economic functions are rigidly, exclusively, and unambiguously fixed at particular scales” (p. 332). Specifically, when considering the emphasis of economic geography as it relates to constructing spaces and scales with circuits of value (Peck & Theodore, 2007, p. 759), a multiscale approach to changes becomes important for understanding spatial configurations under capitalism.

A second noteworthy criticism of the VoC approach's spatial analysis is provided by Jessop (2012, p. 231): Liberal market economies (LMEs) cannot be analyzed as just one model of capitalism among others that might be extended across territories and scales with the same positive or negative results. Jessop underlined:

*For example, not all economies can establish their national money as the world currency and run massive and growing trade deficits, not all national states can be military masters in a unipolar world, and so on. The dominant model cannot become universal. This is not just a matter of logical compossibility. It also concerns discursive-material, spatio-temporal compossibility, i.e., the substantive fit (or otherwise) among varieties of capitalism. This involves not only the economic competitiveness of a given form of capitalist organization but also the capacity of its political regime(s) to promote this form in and beyond its frontiers in relations among places, interscalar relations, and networks. (Jessop, 2012, p. 231)*

Therefore, regarding market-disciplinary regulatory prototypes as being transferable, the extension of these prototypes “as a replication of Anglo-American models’ among other countries, displays this approach’s lack of critical attention to spatial configurations in variation analysis” (Brenner et al., 2010, pp. 188–189). This criticism of the VoC framework adopting LME as a model of capitalism elsewhere without considering the spatiotemporal compossibility, hierarchy of states, and interscalar relations has brought the third criticism, which is based on its disregard of uneven spatial development and the effect of neoliberalization on the expansion of market relations.

In this regard, although the VoC approach regards neoliberalization as a national regime type that extends across places as a mimetic replication, neoliberalization transforms institutional structures. Contrary to the generalizations of neoliberal politics with a more-market and less-state conceptualization, these are related to variegated and uneven outcomes that do not entail a simple convergence among countries (Peck, 2004, p. 396). When evaluated in terms of criteria such things as labor market regulation, scale and scope of state intervention, and patterns of political resistance, neoliberalism indicates a variegated character (Peck & Tickell, 2002, p. 387). Brenner et al. (2010) emphasized that, contrary to the assumption of the VoC approach based on the preservation of institutional stability through regulatory restructuring, neoliberalization distorts national and subnational regulatory spaces by creating crisis, conflict, and resistance tempted by political movements and oppositional social forces and accordingly reshapes institutional order by leaving different impacts at different spatial scales (pp. 196–197). Therefore, as Brenner et al. have

stated, the neoliberal regulatory system is an interactional process between the inherited institutional landscapes and alien institutions that results in the creation of hybrid and spatially heterogeneous forms. Such a hybridized institutional landscape is reconfigured under a conflictual, contradictory, and spatially uneven process (pp. 188–191). Thusly, the equalization of neoliberalization processes worldwide is opposed, as “on a systemic level, neoliberalization processes are temporally discontinuous and spatially heterogeneous; and they produce (always mutating) macro-institutional frameworks that simultaneously intensify and exploit this constitutive spatiotemporal unevenness” (p. 208). In this respect, Brenner et al. emphasized that geoinstitutional differentiations are not interruptions or exceptions in the neoliberal process of deferring crisis tendencies. Entrepreneurial urban policies and regional policies are used to displace crisis pressures by attracting investments, but undermine territorial cohesion and fail to provide stable economic development. In short, under the “dynamics of institutional creative destruction,” neoliberal strategies lead to uneven development (p. 210).

At this point, one should note that not only the analysis of the institutional reconfiguration in all spatial scales but also its uneven development are also flaws in the VoC approach. Geoeconomic restructuring (i.e., the uneven reconstruction of regulatory formations in contrast to the homogenization or convergence of them across places, territories, and scales) lies at the center of variegation analysis (Brenner et al., 2010, p. 184). The capitalist system produces not only social class inequalities but also spatial inequalities in different places and at different scales. This is explained as uneven geographical development that alludes to “the circumstance that social, political, and economic processes under capitalism are not distributed uniformly or homogenously across the earth’s surface, but are always organized within distinct sociospatial configurations—such as urban agglomerations, regional clusters, rural zones, national territories, supra-national economic blocs, and so forth” (Brenner, 2004, pp. 12–13). Capitalist relations of production cause geographical differences and sociospatial polarization. Hence, neither LME as just one model of capitalism nor neoliberalism as just a national regime type can be extended with the same effects, because while investments



and socioeconomic assets concentrate within particular zones on one hand, other places and regions can be excluded or marginalized on the other (Brenner, 2019, p. 177). This polarization may facilitate the finding of new profit opportunities that arise from scale economies and other externalities for some individual capitalists. However, it may also destabilize national economies, because “peripheralized regional economies are constrained to adopt cost-based, defensive strategies of adjustment, leading to a premature downgrading of local infrastructures and to worsening life conditions for many local inhabitants” ( p. 178). Therefore, as Jessop (2012, p. 231) has pointed out, although formal equality is present among national states, the reality behind this is the informal hierarchy of states based on the hierarchical structure of accumulation. The existence of a hierarchical structure and the uneven geoeconomic restructuring under capitalism bring uneven spatial development analysis to the core of the discussions on capitalist varieties, in contrast to disregarding it.

A fourth major criticism of the VoC approach is how it neglects to involve emerging market economies in variation analysis. The VoC framework concentrates on Western market economies within a dichotomy between the LMEs and coordinated market economies (CMEs), which concerns its inadequate conceptualization of East-Central European, Asian (except Japan), Latin American, and Mediterranean countries (Feldmann, 2018, p. 7; Nölke & Vliegenthart, 2009, p. 671; Ebenau, 2015, p. 48; Gould et al., 2015, pp. 593–594). Regarding this kind of criticism, Feldmann has argued that considering the “many challenges, such as managing capital flows, attracting foreign investment, and finding a niche in the global division of labor that harnesses domestic capacities and institutions” in a global economy, the theorization of the diversity of capitalist systems requires studying interdependencies and interconnections between developed countries and developing countries beyond the analysis of the tradeoff between OECD countries (Feldmann, 2018, p. 29). In parallel to this approach, Nölke (2011, p. 2) has submitted that, when considering the interaction among transnational economic order (e.g., foreign direct investments, the changes between public and private governance) and national capitalist orders, as well as the influence of emerging national capitalist economies (e.g., China, India) regarding transnational

economic governance, the perception of this interaction cannot be restricted to the analysis of the Triad economies (i.e., USA, Japan, Western Europe). Hence, to surpass the VoC approach's narrow focus on the Triad economies and its strict dualism, the analysis should be broadened by including global production networks, transnational companies, and the interactions of the domestic bourgeoisie and unions with multinational corporations, as well as the relationship between domestic class struggles and transnational politics (Nölke & Vliegthart, 2009, p. 673).

In light of these criticisms, the struggles to extend the geographical scope of application beyond the world of the Triad and develop new models of capitalism that consider dependency and hierarchical relations have emerged as second-generation comparative capitalism research (i.e., the post-VoC approach; Nölke, 2019, p. 2). Criticisms of the VoC framework have led to the development of new directions in comparative capitalism research that consider these interdependencies and broaden the geographical scope of variation analysis. The next section will focus on these debates under the heading of the post-VoC approach.

### **The Development of Geographical Analysis in the Post-VoC Approach**

Contrary to the disregard for emerging market economies in VoC theory, the post-VoC approach provides a more comprehensive analysis of geographical scope. Recent advances in the theoretical framework have led to the inclusion of Latin America and East Asia in the capitalist variety debates (Ebner, 2015). The extension of the typology beyond the USA, Western European, and Japanese economies has been made in terms of different concerns. For example, Schneider's (2013) approach, which is close to the insights from the VoC literature, submitted two new varieties of capitalism known as hierarchical market economies (HME) and networked market economies (NME) by focusing on the mechanisms of allocation that are markets, networks, hierarchy, and negotiation. Beyond LMEs and CMEs, he has labeled Latin American economies as hierarchical market economies in which economic decisions are maintained by multinational enterprises and business

groups through hierarchical relationships. For Schneider (pp. 5–7), this model can also be adapted to Turkey, South Africa, and Thailand. Schneider (p. 24) defined another typology as the networked market economy that relies on informal relations, such as “long-term, noncontractual, face-to-face interactions” in economic relations, with Japan being classified as a representative case of this typology.

As another example, emerging market economies are labeled under the dependent market economy (DME) type of capitalism in Nölke and Vliegenthart’s (2009) analysis of capitalist variegation. They argued that DMEs as a third basic variety rely on a hierarchical coordination mechanism in which institutional complementarities revolve around transnational enterprises. Accordingly, their dependency is revealed as a result of transnational corporations’ control over investment decisions. On the other hand, comparative advantages emerge from the combination of low labor costs and a skilled population: the transfer of technological innovations within transnational enterprises and the attraction of foreign direct investment. Due to the transfer of innovations from abroad, neither a CME-style system of vocational training nor an LME-type system of research and development expenditures exist in emerging market economies. On this basis, Nölke’s and Vliegenthart asserted that, while these economies transfer innovations without the risk of intellectual property rights and thusly compete in global markets by specializing in the assembly of semi-standardized industrial goods (i.e., relatively complex and durable consumer goods), they remain under the dominion of transnational enterprises. Taken together, these authors argued that DMEs do not fit into CME or LME models due to the interdependence of national capitalism with global production networks (pp. 672–679).

Post-VoC approaches have also extended their analysis to the subnational diversity beyond national types (Ebner, 2015; Ebenau, 2015, p. 54). Such an analysis of regional varieties can be seen in Crouch’s (2005) work on local production systems, in the studies of Italy’s regional capitalism, and in the regionally differentiated pattern of development in Sweden. For example, Crouch (pp. 141–142) has contributed to the analysis of the subnational level in the exploration of governance mechanisms in California. Governance mechanisms are

defined as arrangements that create behavioral regularities for the maintenance of institutions and consist of formal and informal, public and private, and regulatory and normative mechanisms. Crouch pointed out how the changes in governance mechanisms can transform institutions due to the establishment of different regulations. In this regard, Crouch remarked that California depicts a hybrid form of governance in which markets are central and share governance with networks on one hand while the state provides the finances and knowledge base that makes it institutionally diverse on the other. Thus, the Californian example presents a regionally differentiated character. In short, the post-VoC approach offers a more in-depth analysis than the VoC theory in terms of the geographical scope of national diversity as well as its inclusion of regional diversity in the comparative capitalism debates.

### **Deficiencies of the Post-VoC Approach**

The post-VoC line has deepened discussions on the types of capitalism through a more geographically inclusive approach to capitalist varieties. However, this approach has been criticized due to under-theorizing the variegation of capitalism on a global scale, especially in non-core regions where “class conflicts are much more open and produce frequent and deep-reaching institutional reconfigurations, and the processes ‘within’ any given social formation are often more or less openly overdetermined by ‘external’ structures” (Ebenau, 2015, p. 53). In this respect, the post-VoC approach has the same drawbacks as the VoC approach. In the post-VoC framework, the analysis of the national level in isolation has led to disregarding the inequalities in different territories that have emerged from dominant forces’ ability to shift the cost and crisis tendencies of capitalist accumulation to other regions on a global scale (Ebenau, 2015, p. 54). Hence, these critiques underline that inequalities on a global scale should be elaborated upon to reveal deeper causes, such as the reasons behind the inferior capacity of production of institutional fixes in non-core spaces.

Additionally, the analysis of regional varieties in the post-VoC approach has also been criticized. Ebner (2015) explained the limitations of this tradition in

relation to its lack of emphasis regarding the role of the state in the shaping and scalar production of regional varieties. He also underlined how a multiscalar perspective should also be inserted into regional variety analysis:

*The empirical observation of regional patterns of production, distribution and social integration should not result in a misled understanding of regional varieties of capitalism as relatively autonomous units of operation. Rather, it is analytically useful to keep in mind that regional varieties are components of a multilevel and multi-scalar structure of co-evolving actor constellations and strategic relationships. This implies that economic and other social processes of regional development feed back into other regional as well as national, transnational and supranational arenas of interaction. (Ebner, 2015, pp. 2–3)*

In this regard, Ebner drew attention to the variegated capitalism approach whose concern is scalar complexity as an analytical unit for overcoming methodological nationalism. The next section will examine this approach.

### **The Variegated Capitalism Approach: Placing the Spatial Dimension with Its Contradictory Nature in Capitalist Variety Debates**

Comparative capitalism discussions have been deepened by involving the variegated capitalism approach from a critical perspective. Institutions that take place at the heart of VoC studies for analyzing capitalist diversity have been studied by placing them in a wider social relation with respect to the contradictions and power relations of capitalism in this approach.

Albo (2005, pp. 75–76) argued that, in order to analyze the variations of capitalism, the following issues should be considered. Firstly, new stratifications should be considered within the international division of labor that have emerged from the intensification of capital through the use of the new technologies that have changed the control strategies of the workplace and the length and intensity of the work day. Secondly, the spatial restructuring of capitalism should be considered, such as the expansion of international production networks into new zones and the movement of financial and retail services in core city regions. Thirdly, financial activities with the aspects of expansion of speculative capital and

of disciplining productive capital in the pursuit of profits should be considered. Fourthly, the internationalization of capital should be considered. Fifthly, the restructuring of the state in relation to political changes of deregulation, marketization, and privatization should be considered, as well as the structural changes in the role of agencies for economic matters (e.g., the increasing operational autonomy of central banks and regulatory institutions).

In addition, the institutional context of national capitalisms, the hierarchical relations in the world market, and the contradictory nature of capitalism are also important for understanding the differences in capitalism. In this regard, Gough (2014) remarked on the capitalist variety in terms of contradictions and provided an example in terms of the fixity and mobility of productive capital and money capital. While fixity can create productivity and innovation due to the development of trust and mutual knowledge for capital, mobility on the other hand enables movement from the territories with low profitability for capital. The flows of money capital and productive capital create uneven and combined development, as well as contradictions due to the different results arising from mobility and fixity. Another example is the contradiction that emerges from the interaction of production and reproduction within a place. Tension appears in the different roles of women as unpaid labor within the home and exploited labor within waged production. These gender relations lead to changes within spaces. As another example of contradictions in capitalism, the difference in industrial relations, which is the best-known example in the VoC literature for analyzing capitalist variations, is “founded on a contradiction in capital-labour relations in all times and places between the need for capitalist discipline to ensure surplus value extraction and the need for a certain degree of cooperation and initiative by labour” (pp. 199–200). This was and is implemented with different emphases in Britain and Germany. Thusly, as underlined by Gough, contradictions bring about empirical differences in capitalism specific to place and time.

In the light of these considerations, the term *variegated capitalism* that Jessop (2015, p. 77) developed refers to “the coexistence and compossibility of ‘varieties of capitalism’ within a tendentially singular (but not necessarily unified, let alone

harmonious) world market." For Jessop, as the contradictions of capital become intensified at a global scale, examining capitalist development within national economies in isolation from their integration in the world market through the ideal types becomes more difficult.

Thus, the variegated capitalism approach focuses on the world market integrations, hierarchical ordering, dependency relations, and patterns of adhesion and exclusion, in contrast to comparative capitalism research's focus on the international competitiveness or ability to reap benefits from global value chains (Jessop, 2015, p. 80). Jessop underlined how the changing complexities and interactions in the world market arising from the "changes in the organization of the space of flows" and "the internalization of economic spaces through the growing penetration (inward flows) and extraversion (outward flows)," as well as the emergence of the multinational companies and transnational banks, generate new forms of uneven development among different territories, scales, and networks, and also cross-border alliances "sometimes based on intergovernmental cooperation, sometimes on the pooling of sovereignty and sometimes on more or less hidden forms of imperial or neo-imperial domination" (p. 76). Accordingly, Jessop emphasized "an integrated and dynamic analysis of uneven development on a world scale" (2012, p. 227) by focusing on antagonisms, coevolution, complementarities, and interdependencies instead of analyzing each variety in isolation or clustering them separately (2014, p. 46).

*This means that they cannot be accorded equal analytical weight as so many theoretically possible, empirically observable and more or less internally coherent, harmoniously functioning individual instances of capitalism. Rather, varieties of capitalism should be studied in terms of their asymmetrical, differential integration into an evolving world market that sets limits to compossible combinations and implies that some 'varieties' are more equal than others, that is, cause more problems (or create more 'disharmonies') for other varieties than they can cause for it. (Jessop, 2015, pp. 76–77)*

In this regard, the term *compossibility* emerges as an important issue of variegated capitalism. Jessop examined the compossibility among different varieties of capitalism and questioned the extent to which coexistence among them occurs in the same economic space, as well as the influence their coexistence

has on their individual and collective economic performance (Jessop, 2012, p. 227; 2014, p. 54). Jessop defined the Eurozone as a latent impossibility and the relationship between China and the United States as a dysfunctional interdependence (2015, p. 77). He stressed the tensions in these relations and the tendency toward structural crisis and viewed the coexistence of these economies as a pathological compossible system.

Regarding this issue, another principle of variegated capitalism is the ecological dominance that concerns “the relative weights of different varieties” (e.g., global dominance of the liberal market model), and “the uneven impact of different circuits of capital” (e.g. the ecological dominance of financial capital; Jessop, 2014, p. 54). This principle deals with how each variety creates problems for the other as a result of “the clash of specific economic and political strategies” and the use of violence and market rigging, rather than explaining the causes as a result of mechanical outcomes of market forces (Jessop, 2015, p. 78; 2014, p. 54). Overall, Jessop viewed these terms (i.e., variegation, compossibility, ecological dominance) as fractal phenomena emerging and interacting at many scales and also regarded the world market as the ultimate scope of accumulation (Jessop, 2015, p. 55). The variegated capitalism approach considers the diverse pattern of capital accumulation in a differential scope (territory, network, place, and scale, with the world economy as the ultimate scope) and underlines the weakness of analyses made on a case-by-case or type-by-type basis when considering the world market integration, coevolution, and dependency relations.

### **A Comparison Between the Varieties of Capitalism Approach and the Variegated Capitalism Approach Regarding the Analysis of Space**

How the variegated capitalism approach incorporates space into its analysis will be discussed further in comparison with the VoC approach. First of all, contrary to the capitalist varieties literature’s emphasis on the national scale, the variegated capitalism approach focuses on multiple scales, explores the causes and consequences of spatial differentiation (Peck & Theodore, 2007, p. 759), and remarks how “the spaces and scales are constructed by circuits of value” (Brenner,



2004, p. 3). Taking the national scale as a predominant focal point for state policies and political-economic analyses has been questioned since the 1980s. These inquiries have entailed the development of new theoretical approaches for analyzing state space. In these analyses integrating spatial considerations into social theory, approaching space as a social construct rather than as a static platform, surveying the restructuring of state spatiality after the crisis of Keynesianism, and dealing with the revival of urban and regional scales, new types of strategies at subnational scales and multi-scalar networks have become the prominent research agendas (Brenner et al., 2003, pp. 3–4). Scholars contributing to the political economy of scale have called attention to the supranational and subnational level in addition to the national level and focused on state restructuring and struggles at the new scales.

However, the rescaling of the national state in the neoliberal era has aroused globalization and localization narratives in which “the global scale is naturalized as a domain effectively beyond regulation” on one hand and “local governance systems are overburdened with the risks, costs, responsibilities, and expectations of social welfare and economic competitiveness” (Peck, 2002, p. 335) on the other. In this respect, a bipolar rescaling of economic intervention into the entrepreneurialized cities and regions at the subnational level, and upward to the international agencies at the supranational level has occurred (p. 339). Rather than develop a bipolar perspective between global and local or give priority to a given spatial scale, Swyngedouw (1997, p. 144) argued:

*The role, importance, and position of each geographical scale results from the dynamics of sociospatial transformations. The role of particular geographical scales, their articulation and interpenetration, has to be theorized (and political mobilization has to proceed on this basis as well) and reconstructed as the result of the dynamics of sociospatial relations.*

Swyngedouw (1997, pp. 140–142) opposed starting the analysis with such pre-given scales as global or local, instead contending that geographical change should be understood as a sociospatial process in which social conflicts and struggles transform the role and importance of geographical scales and may create new scales. Accordingly, he comprehended scale as a product of the

conflictual and contested sociospatial process that involves power relations rather than their being socially and politically neutral and also viewed scale as a restructured geographical configuration regarding its content and interrelations rather than being fixed. Therefore, to avoid a binary analysis between the global (which is regarded as mobile) and the local (which is regarded as immobile) in orthodox analysis, the connections among them should be considered. In this regard and as explained previously, the variegated capitalism approach emphasizes a relational analysis of scale. This means that, rather than a separate examination of the local, national, and global scales, focusing on the hybridization of scale and the asymmetrical interscalar connectivity enables a more comprehensive analytical framework (Peck, 2002, p. 336).

In this context, the term *state space* is used to indicate the rescaling of state spatiality, the changing forms of state interventions, and the sociospatial regulations at different scales rather than the analysis of state spatiality as a static container. This is examined in terms of three dimensions: firstly, state space in the narrow sense denotes the "state's distinctive form of spatiality... [namely, the] juridico-political institutions and regulatory capacities grounded in the territorialization of political power" (Brenner et al., 2003, pp. 6–7). This dimension also underlines the changing structure of state territorial organization and the evolving aspect of territorial borders within the inter-state system of the modern period. Secondly, state space in the integral sense represents the changing aspect of state spatial strategies and regulations, namely place-specific and scale-specific state interventions for adapting to the changes in capital accumulation. Thirdly, state space in the representational sense signifies spatial imaginaries that are based on power-knowledge relations for the production and rearticulation of state space. Thus, besides the material-institutional practices of state spatial configurations, representational and discursive strategies that promote particular interests in the realm of sociopolitical struggle have key roles in the construction and transformation of state space (pp. 10–11). In this respect and as pointed out by Peck (2002, p. 332), rescaling involves a transformation in the institutional structure, power relations, and parameters of political agency.

Meanwhile, Gough (2004) remarked on how the relation of rescalings and changes in scalar strategies with the fundamental contradictions of spatial accumulation. At an abstract level, these contradictions can range from contradictory relations between the productive capital and labor power in certain territories to contradictions related to the scope of state intervention, contradictions between specialization of territories and equalization of factor costs and final prices, or tensions arising from a state's response to the demands of individual capitals and capital as a whole. These contradictions entail a scalar instability of regulation and contested politics, which also brings about instabilities in class relations and accumulation. Therefore, economic actors tend to jump scales to overcome the accumulation problems these contradictions cause (pp. 203–204). For instance, labor organizers build territorial alliances or make alliances with lower-scale movements to enlarge a particular scale, or capitalists desire to control greater spaces for their operations and to struggle with other capitalists and labor. Thusly, scale is a geographical configuration in which a struggle exists for control, domination, competition, and cooperation (Swyngedouw, 1997, p. 145). In Neil Smith's words, the production of geographical scales can be viewed as a political process in which cooperation and competition among social forces move towards spatial resolution:

*Geographical scale is socially produced as simultaneously a platform and container of certain kinds of social activity. Far from neutral and fixed, therefore, geographical scales are the product of economic, political and social activities and relationships; as such they are as changeable as those relationships themselves. At the very least, different kinds of society produce different kinds of geographical scale for containing and enabling particular forms of social interaction. (Smith, 2003, p. 228)*

The reorganization of social interaction leads to the discontinuation of the given scale and gives rise to the *jumping scale*. In this respect, shifts in scale should be considered shifts in class relations, because class agents intervene in territorial arrangements with different abilities to command different scales and territories (Gough, 2004, p. 189). Thusly, scale changes, class struggles, and contradictions should be grasped from an interrelated perspective to avoid a static analysis.

Overall, in contrast to the focus on a national scale in varieties school of thought, the variegated capitalism approach pays attention to multiscalarity,

explores the reconstruction of institutional landscapes at multiple spatial scales, and focuses on the social constitution and relativization of scale (Peck & Theodore, 2007, p.763). As Jessop (2014, p. 49; 2012, pp. 226–227) demonstrated, while VoC analyses local, regional, and national models as competitors on the same scale, variegated capitalism indicates their interrelations by examining the complementarities and tensions between models in a singular world market.

In addition, the lack of institutional theories regarding the uneven development of capitalism in the VoC approach is problematized in the variegated capitalism approach (Peck & Theodore, 2007, p. 764). Spatial inequalities as well as social inequalities are intrinsic to the capitalist economy, which creates uneven development in which divergent sociospatial configurations arise in the forms of different institutional, infrastructural regulation and developmental paths (Brenner, 2019, p. 177). The ongoing endeavor for a favorable position in the geographic division of labor based on the search for new markets, cheap labor, and new cheaper raw materials entail inequalities that result in geographically uneven development. As the division of labor is reconstituted, the tension between the local and global increases (Cox, 2002, pp. 260–261). Thus, the pattern of uneven geographical development is built on a contradictory process in which the forces of intercapitalist competition tend to equalize capitalist investments by following similar profit-making strategies across different spaces on one hand while tending to create geographical differentiation by seeking specific spatial features for competitive advantages on the other (Brenner, 2004, p. 13; 2019, pp. 177–178). As Brenner remarked, a variegated landscape of capitalism and sociospatial polarization arise both vertically at all scales (local, regional, national, global) and horizontally across places, territories, and regions under these conflictual tendencies between equalization and differentiation.

## **Conclusion**

This paper has focused on the discussion of capitalist diversity approaches to understand the peculiarities of accumulation by drawing on the spatial dimension of capitalist variety discussions. By giving an overview of these alternative perspectives, attention has been paid to the variegated capitalism approach due to its coherent

analysis of spatial restructuring in capitalist development. This approach is an attempt to build an analysis that explains different patterns of capital relations through a multiscale analysis by considering the contradictions and conflicts inherent in capitalism. The VoC approach examines geographical variability only by relying on a national scale, without considering the complex connections among scales. Because it ignores the world hierarchy in capitalist relations of production, uneven spatial development is also excluded from the variation analysis in the VoC framework. However, the development of spatially uneven and contradictory processes has been particularly accelerated during neoliberalization. This has created more variegated outcomes and spatially heterogeneous forms contrary to the ideal types of the VoC analysis. On the other hand, as neo-liberalization has remolded the institutional order, VoC scholars' assumption of institutional stability has been undermined, with geoinstitutional variations having become clearer. In this context, the variegated capitalism approach provides a more analytic framework by focusing on a relational analysis of scale in which rescaling is investigated in relation to state spatiality, the different forms of state interventions, and the changes in institutional structure.

Overall, the variegated capitalism approach offers a significant departure from the VoC and post-VoC generation. Variegated capitalism analyzes variations in terms of the internationalization of capital, which has led to spatial restructuring, restructuring of the state, new hierarchical relations, and new stratifications within the international division of labor in the world market. Jessop, as discussed throughout the article, provided a particularly distinct contribution to this approach by including conceptual tools for analyzing capitalist variation. According to Jessop, the connections among the accumulation strategies, state projects, and strategic capacities of actors entail diverse forms of capital relations at various spatial scales, with importance being had in considering world market integrations through antagonisms, hierarchical relations, interdependencies, and complementarities conceptualized as *compossibility* when analyzing the variegated landscape of capitalism. To identify the problems created by each variety, Jessop also considered the relative weight of varieties and the uneven outcomes of different circuits of capital, which Jessop conceptualized as *ecological dominance*. Given the interactions among scales, networks and territories, he has concluded a type-by-type analysis to be impossible.

**Ethics Committee Approval:** Since the study did not contain any research requiring ethics committee approval, an ethics committee approval certificate was not obtained.

**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The author has no conflict of interest to declare.

**Grant Support:** The author declared that this study has received no financial support.

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RESEARCH ARTICLE

## Macroeconomic Determinants of Tourism Demand Toward Emerging Markets

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### ABSTRACT

This research provides valuable insights into the intricate dynamics influencing tourism demand in Turkey. By delving into the relationships between transportation costs, tourists' income levels, prices, the COVID-19 pandemic, and exchange rates, the study sheds light on the multifaceted nature of the tourism industry. The findings underscore the significance of various factors in shaping the tourism demand. Transportation costs and exchange rates are identified as critical determinants, exerting adverse effects on tourism demand. Higher transportation costs and unfavorable exchange rates can deter potential tourists. However, income and prices emerged as positive influencers of tourism demand, suggesting that higher incomes and favorable price levels can stimulate tourist activity. The study's investigation of causal relationships through advanced statistical techniques revealed valuable insights. The unidirectional causality from transportation costs and income to tourism demand highlighted the pivotal role of these factors in driving tourist behavior. Additionally, the causal relationship between prices and the exchange rate signifies the interplay between economic conditions and pricing strategies in shaping tourism demand. Overall, this research provides a deeper understanding of the complex dynamics in the Turkish tourism market, offering valuable insights for industry stakeholders and policymakers alike.

**Keywords:** Tourism demand, Price levels, Exchange rate, Income, Transportation costs, Panel data, Poisson-Negative binomial regression, Panel causality

**JEL Classification:** C13, C33, L83, Z30



DOI: 10.26650/ISTJECON2023-1296548

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**Submitted:** 19.05.2023

**Accepted:** 19.10.2023

**Citation:** Darici, B., Aydın, A., Ayhan, F., Altaylar, M. (2023). Macroeconomic determinants of tourism demand toward emerging markets. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 837-864.  
<https://doi.org/10.26650/ISTJECON2023-1296548>



## Introduction

International tourism is an essential tool for economic development and contributes to the increasing economic diversity in many developing countries. The foreign exchange revenues generated through tourism enable the financing of budget deficits and help alleviate unemployment problems. Tourism has a close and mutual relationship with other service sectors, such as construction, trade, accommodation, transportation, and food and beverage (Dritsakis and Spiros, 2000). Tourism sector income increases social development and economic growth in the host countries (Tunçsiper and Horoz, 2023); it also benefits other affiliated sectors, resulting in even greater dynamism in the sector (Akova et al., 2011). Lejárraga and Walkenhorst (2013) emphasized the critical role and value of tourism for developing economies.

The World Tourism Organization (UNWTO, 2022) reported that overnight global arrivals were 1.5 billion in 2019. After the COVID-19 outbreak, it dropped to 400 million in 2020, but it increased by four percent to reach 415 million in 2021. International tourism earnings were 1.7 billion dollars in 2019, decreasing to \$638 billion in 2020 after Covid and \$700-800 billion in 2021. The upward trend in volume and receipts showed that international tourism activities are crucial to global economic recovery.

There are numerous empirical studies evaluating the connection between tourism progress and economic development, the nexus between the tourism sector and foreign direct investments, and the determinants that influence tourism demand (mainly to estimate and analyze tourism demand for selected countries). The research targeted the top ten countries that had the most tourists visiting Türkiye to determine how this demand affected selected macroeconomic variables on the tourism sector. We used annual tourism data from 2000 to 2020 for the ten countries that, based on 2020 statistics, had the most tourists visiting Türkiye and general macroeconomic data for them. These top ten countries' tourist demand to visit Türkiye constituted about 60% of the total tourism demand in 2020, and these countries had sent over 24.7 million tourists by 2020.

Since the COVID-19 pandemic significantly impacted tourist demand and income of many countries (Henseler et al., 2021; Huyugüzel Kışla et al., 2023), this paper intends to show the effects of the pandemic by adding COVID-19 as a dummy explanatory variable in the empirical model.

The paper contributes significantly to elucidating and determining the measures that could be implemented to raise the volume of inbound tourists and the strategies and policies that might be applied to each country included in the analysis. One of the crucial contributions of the current research, in terms of the magnitude and aspect of the influences of the selected indicators on tourism demand, is to highlight the development of relevant policies using tools for the analyzed top ten countries' markets that sent the most tourists to Türkiye. The study's findings may help develop appropriate marketing strategies as the effects of macroeconomic variables are explored for Türkiye. Türkiye is among the top ten developing countries that host the most tourists globally. Therefore, the study's findings could be useful for Türkiye and other emerging markets policymakers. Even though similar analyses have been carried out in the field for other economies, studies focused on the countries covered in this study have not been conducted.

The paper's organization is as follows. First, related studies in literature are examined. Next, information about data sets and variables utilized in the empirical model are discussed. The third part presents the analysis methods and econometric model. The fourth part provides findings of the empirical analysis. Finally, we summarize and conclude the model findings and give the policy implications.

## **1. Literature Review**

There have been many different modeling strategies to estimate tourism demand in the field. The majority of these studies about tourism demand modeling were conducted by using time series econometric techniques such as Kulendran & Witt (2001), Lim & McAleer (2000), Dritsakis (2004), Divisekera and

Kulendran (2006), Salleh, Othman, and Ramachandran (2007), Tavares & Leitao (2017), Shafiullah, Okafor, and Khalid (2018), Meo et al. (2018), Sharma and Pal (2020). However, other authors analyzed future preferences by building models based on a representative consumer (tourist) (see Alegre and Pou, 2006: 1345). In econometric analyses regarding international tourism demand, the demand is modeled as the explanatory variable and generally represented by the volume of tourist arrivals or tourism earnings. Independent variables used in such analyses include economic and financial variables like tourism prices, income level, exchange rate, and transportation costs (Lim, 1997; Meo et al.(2018), Witt & Witt, 1995; Shafiullah et al. (2019), Sharma and Pal (2020); Ulucak et al. (2020)) and sometimes non-economic variables such as epidemics (e.g., Wang, 2009; Cheng, 2012), terrorism (Fourie et al.(2019), war, political tensions and instability (Muroz,2007), economic sanction decisions between countries, visa issues and bureaucracy (Nadal and He (2020)). Many studies were done for different regions and countries in the World, but unanimity has yet to be gained as to a solid theoretical and practical basis for tourism demand (Song et al., 2013).

Gasmi and Sassi (2015) used a dynamic GMM panel model to explain tourism demand. Their study explored the principal explanatory variables of tourism demand for 1994-2012. The authors found that consumer loyalty significantly affected Tunisia's foreign tourism demand. The calculated elasticities of price and empirical results showed that international arrivals considered Tunisian tourism as a luxury service.

Tang et al. (2016) introduced a new perspective by using static and dynamic copula-GARCH models and tried to estimate China's dependence on exchange rate and tourism demand. They found that the exchange rate volatility was not a critical reason for China's tourism arrivals. Nevertheless, Russia exhibited negative behavior with RUB depreciation (or CNY appreciation equally) connected with a massive drop in tourist arrivals.

Yazdi and Khanalizadeh (2017) determined an international tourism demand with a gravity model for 1995-2014 by using tourist arrivals from 14 countries to

the USA. The findings revealed that the real gross domestic product, consumer price index, tourism transport infrastructure, and real exchange rate significantly explained the tourists' number.

Martins et al. (2017) examined the nexus between fundamental economic indicators and tourism demand with panel data analysis for 218 nations from 1995-2012. Research findings revealed that a global GDP per capita rise, a depreciation of the national currency, and a decrease in relative local prices increased the demand for tourism.

Tavares and Leitao (2017) determined global tourism demand in Brazil with the gravity model for 2004-2013. The study results revealed a positive nexus between exchange rate and demand in tourism.

Meo et al. (2018) estimated tourism demand factors using the NARDL method from 1980 to 2015 for Pakistan. The research findings revealed that an asymmetrical nexus between exchange rates, inflation, oil prices, and tourism demand existed.

Assaf et al. (2019) explored the dynamic of tourism demand for nine Southeast Asian countries using the BGVAR method for 1985Q1: 2014Q2. Relative consumer price indices and exchange rates were used as explanatory variables. According to research findings, the GDP, TP, or exchange rate represented spillover effects in demand for the tourism sector.

Shafiullah et al. (2019) researched the factors of global demand in the tourism sector for Australia. Global tourism demand was explained using Panel and time series methods with foreign national stocks, real exchange rate, transportation costs, and the prices of global and domestic rivals. They revealed that the nexus between explanatory factors and demand in tourism differed according to the state and region.

Using a panel gravity model, Tatoğlu and Gül (2020) analyzed tourism from 30 different economies. They examined the most visited nations using the data from

2008 to 2016. The GDP per capita as a proxy of income level for host and home nations was added to the gravity model with space between countries and several economic factors (consumer price index, GDP per capita, exchange rate, etc.). The model's findings indicated that income and trade dynamics were essential factors for tourist arrivals, and distance was negatively connected with tourism arrivals.

Nadal and He (2020) conducted tourism demand modeling by investigating the relationship between the data from 191 countries and the number and expenditures of international tourists from 1998-2016. According to the findings of fixed effects OLS panel model, there was a positive correlation between the destination economy's income and demand in tourism. At the same time, the PPP was an adverse connection to tourism demand.

Ulucak et al. (2020) investigated the demand-side determinants of Türkiye's global tourist arrival volume from 25 nations and used an augmented gravity model for the 1998-2017 period. According to the study findings, the GDP per capita, globalization, and relative exchange rate positively influenced tourism demand, whereas CPI, terrorism, household debt, and distance were negatively related.

Sharma and Pal (2020) analyzed the asymmetric connection between demand in tourism and exchange rate volatility. They set up a NARDL model in India with data from 01:2006 to 04: 2018. Their results showed that tourism demand was not symmetrically associated with real and nominal exchange rate volatility.

Finally, Bianchi and Che (2020) tried to determine hotel demand in Switzerland from 1975-to 2016 using the vector autoregression (VAR) model. The research findings divulged that there was no connection between the real GDP, hotel nights, and real exchange rate.

## **2. Dataset and Variables**

Türkiye is one of the Mediterranean region's most beloved emerging tourism routes. As the most visited seaside tourism destination, the Turkish tourism sector

is critical to overall economic activities. According to data from 2018, Türkiye ranked sixth globally in the number of tourist arrivals while ranking 15th in tourism receipts, with total tourism receipts of \$26.4 billion (UNWTO, 2020; 29). According to 2019 data from the Republic of Türkiye Ministry of Culture and Tourism (RTMCT, 2022), the tourist arrival numbers increased to 45.1 million, 15.8 million in 2020, and 29.4 million in 2021, while tourism receipts were approximately \$29.5 billion before the COVID-19 outbreak, \$12.1 billion in 2020, and \$24.5 billion in 2021.

Lim (1997: 841) pointed out that the variables most commonly adjoined in tourism demand analyses were income levels (84%), relative prices (74%), transportation costs (55%), and foreign exchange rates (25%).

In the current study, the macroeconomic determinants used to evaluate the international tourism demand for Türkiye were income level, general price levels, exchange rate, transportation costs, and the COVID-19 pandemic effect (as a dummy variable). The paper analyzed utilizing time-series data covering the years 2000 and 2021 for the top ten origin economies with the highest inbound tourists to Türkiye in 2021. In total, there were 220 observations for each variable. The top ten nations that sent the most tourists to Türkiye constituted almost 60% of the total tourist number (see Table 1). These nations are Germany, the Russian Federation, the United Kingdom, Bulgaria, the Iran Islamic Republic, Georgia, Netherlands, France, Ukraine, and Greece. The number of countries in the econometric analyses was restricted to ten countries because of the lack of comparable data for other nations, the fact that the data was annually published, and the inaccessibility of data for other countries. Therefore, the study was limited to data from the ten countries in question; however, the same data collection method made one comparable. In 2019, 45,058,286 tourists, the highest number in the last ten years in Türkiye, was reached. After the COVID-19 outbreak, the number of tourists significantly declined in Türkiye as it did worldwide due to the stopping of international flights, restrictions, and measures for the pandemic. Therefore, the average from the last ten years was used in this analysis.

**Table 1: Top Ten Countries with the Most Tourist Arrivals in Türkiye (2021 and the average for 2020-2021)\***

Country	Last Ten Year's Average	Share in Last Ten Years Average (%)	Tourist Arrivals in 2021	Share (%) in 2021
Germany	4,058,717	15.8	3,085,215	12.5
Russian Federation	2,869,735	11.2	4,694,422	19
United Kingdom	1,884,719	7.3	392,746	1.6
Bulgaria	1,436,986	5.6	1,402,795	5.7
Iran, Islamic Rep.	1,226,780	5.8	1,153,092	4.7
Georgia	1,071,799	4.1	291,852	1.2
Netherlands	1,008,729	3.9	645,601	2.6
France	740,020	2.9	621,493	2.5
Ukraine	667,501	2.6	2,060,008	8.3
Greece	157,723	2.1	543,539	0.6
<b>Total of Top Ten Countries' arrivals</b>	15,508,526	60.3	14,506,968	58.7
<b>Total Arrivals</b>	25,686,064	100	24,712,266	100

**\*Note:** It was observed that this composition began to change due to the political and regional problems experienced since 2015. However, the first six countries were the same for the analyzed period 2000-2021; only in some years the order of the countries changed source: RTMCT (2021).

Global tourism demand, this research's dependent variable, is generally measured using the tourist arrivals number, the duration of days/nights of accommodation, or tourism receipts. For example, Akis (1998), Dritsakis (2004), and Lim and McAleer (2002) used the tourist arrival numbers to proxy the tourism demand. The current study accepted the international tourism demand as a dependent variable and described the tourist arrival numbers. The relevant data set for the study was obtained from the file "Number of Arriving Foreign Visitors According to Nationality" from the Turkish Statistical Institute's (TUIK's) database.

Income level is frequently used as an explanatory variable in tourism demand analyses. With easily retrievable information, disposable income represents per capita GDP or capita GNP (Ourfelli, 2008). According to Witt & Witt (1995), Kulendran & Witt (2001), Lim & McAleer (2002), Alegre & Pou (2006), Munoz (2007), Song, Li, Witt, and Baogang (2010), Shafiullah et al. (2019), Nadal & He (2020) income level and tourism are directly proportional. In other words, if the source country has a higher income level, the inbound tourists are associated with a higher demand for tourism services. In addition to the present income level, past income levels also affected tourism demand (Lim, 1997, p. 842). In the



present study, the per capita GDP of the ten countries – calculated according to fixed 2010 USD prices – was utilized as an indicator for income variables.

Tourism prices, among other independent variables, theoretically encompassed tourists cost for the products and services purchased during their accommodation. However, there were no price indices tourism-surroundings exclusively in many countries, including Türkiye. For this reason, the other indexes of relevant countries, such as their consumer price indices (CPI) and producer price indices (PPI), were taken into consideration (Lim, 1997; Dritsakis, 2004; Song et al., 2010; Meo et al. (2018), Shafiullah et al. (2019). In contrast to Allen, Yap, and Shareef (2009), who identified a positive nexus between tourism prices and international tourism demand, the literature showed an adverse nexus between tourism prices and global tourism demand (Witt & Witt, 1995; Alegre & Pou, 2006; Munoz, 2007; Meo et al., 2018; Shafiullah et al., 2019). If general price levels in the host country increase compared to the price levels in source nations, it is expected that tourism demand for the host country will decrease; inversely, if the general price level in the host nation decreases compared to the prices in the source country, it is expected that the tourism demand for the host country will increase. In this study, the relative price structures of six nations represented the tourism services prices. The data set for this variable was formed by using the differences in the “2010=100” Consumer Prices Indices (for all products) of the nations in this research. A rise in this variable leads to a decline in international tourism demand; inversely, a decrease in this variable relates to an increase in inbound tourism demand.

The exchange rate is an essential determinant of long-run tourism demand (Webber, 2001: 398), and international tourism demand models involved exchange rates (Tang et al., 2016). Exchange rate is one of the literatures most used macroeconomic factors for tourism and the whole economy. For example, exchange rate volatility influences foreign trade using goods and services exports and imports (Demirhan & Demirhan, 2015, p. 429). Petrović and Gligorić (2010) mentioned that real exchange rate depreciation had a meaningful, favorable long-term effect on trade equilibrium in Serbia. Tourists generally have limited information about the inflation rates of different countries; for this reason, it is

believed that when deciding where to travel, tourists are more likely to make their decision by looking at foreign exchange rates.

Consequently, models for estimating tourism demand generally consider foreign exchange rates and prices. For example, Lim and McAleer (2002), Dritsakis (2004), as well as Song et al. (2010) used foreign exchange rates as explanatory variables in their analyses. Schiff and Becken (2011) emphasized that foreign exchange rate volatility significantly influenced New Zealand's tourism more than tourism prices. According to Dritsakis (2004), the nominal foreign exchange rate was the national currency equivalent of a unit of foreign currency. When the nominal foreign exchange rate was separated by the price deflator or the cost index, it provided the real effective exchange rate.

A decrease in the real effective exchange rate relates to a decrease in tourism demand; whereas, an increase in the real effective exchange rate is linked with a rise in tourism demand. A reduction in the real foreign exchange rate causes local products and services to become more expensive compared to foreign products and services, thereby increasing essential and foreign currency expenses; moreover, a rise in the real foreign exchange rate causes local products and services to become less expensive compared to foreign products and services, thereby increasing exports and foreign currency revenues. It is possible that there is an adverse connection between the real foreign exchange rate and foreign currency expenses and a favorable nexus between the real foreign exchange rate and foreign currency revenues (Ayhan, 2019). Türkiye's real effective exchange rate rises along with a decline in the Turkish Lira's (TL) value, with the relevant foreign currency unit purchasing more TLs. This means that if tourist arrivals pay less of their currency for the same services in Türkiye, it is likely to raise the tourist arrival numbers from those nations. In the current study, the Real Effective Exchange Rate variable represents the foreign exchange rate. A "2010=100" index value was used for Turkey's currency (TL), so that it would equal the weighted mean of the selected countries' foreign currency.

Transportation costs represent another variable that can significantly affect international tourism demand. Although this variable will eventually become less

important as the number of new, low-cost, and safe traveling opportunities and capabilities increases, this variable is still considered unimportant. Even if the package of tour options presented by travel agencies reduces transportation costs by providing economic/affordable travel opportunities, transportation costs continue to be an important factor when the total tourism demand and current situation are considered. In 2019, 59% of all international inbound tourists traveled by airplane, while 35% by road, 5% by sea, and 1% by rail according to the mode of transport report (UNWTO, 2021: 9). Studies generally use airplane or road travel ticket prices to represent transportation costs. However, as many countries need time series for these ticket prices, refined or crude oil prices are often used instead. According to UNCTAD (2013: 286-289), transportation sectors are directly influenced by oil prices and, hence, adversely affected by an increase in oil prices. Some researchers who used transportation costs in their analyses were Dritsakis (2004), Gasmi and Sassi (2015), Lim & McAleer (2002), Meo et al. (2018), Munoz (2007), Shafiullah et al. (2019), and Witt & Witt (1995).

**Table 2: Air Distance between Istanbul and the Main Cities of the Ten Countries**

Starting Point	Destination	Distance (Mile or Km)
Istanbul	Berlin	1 080 miles / 1738 km
	Moskow	1 091 miles / 1756 km
	London	1 556 miles / 2504 km
	Sofia	313 miles / 504 km
	Tbilisi	756 miles / 1217 km
	Kiev	654 miles / 1 053 km
	Amsterdam	1375 miles / 2 213 km
	Athens	349 miles / 562 km
	Paris	1405 miles / 2 261 km
	Tehran	1 270 miles / 2 043 km

Source: available at: <http://www.travelmath.com/distance/>

In this study, the data set was obtained based on (i) the air distance between Istanbul and the main cities of each country (Table 2) and (ii) the mean for the EIA real crude oil prices that were used to represent the transportation costs (air distance/crude oil prices). The aim was to consider the distance of these countries to Turkiye and crude oil prices. When the air distance remains the same, a jump in oil prices causes the calculated value (for air distance/crude oil prices) to decrease and cause a decrease in tourism demand;

inversely, a drop in oil prices causes the calculated value (for air distance/crude oil prices) to increase, and result in a rise in tourism demand. Usually, oil prices are used to represent this variable. However, taking the air distance into account with the oil prices allows the distance dynamic effect on tourism demand to be modeled.

**Table 3: Data Explanations**

Variable	Representative Variable	Code	Data Source
International Tourism Demand for Turkey	Number of Arrivals (Adjusted for Seasonal Effects and Logarithm Taken)	LnAR	TUIK (2022). Tourism Statistics, Arriving/Departing Foreign Visitors by Nationalities
Income Level of Tourist Source Countries	Per Capita GDP (Fixed 2010 \$US, Expenditure Approach, Seasonally Adjusted)	Y	Eurostat (2021b), OECD (2021c), The World Bank (2021)
Tourism Prices	Consumer Prices Index 2010=100 (All Products)	TP	The data for <i>Germany, Iran, Turkey, and the United Kingdom</i> were retrieved from the Federal Reserve Bank of St. Louis (2021) and the OECD (2021a) database. <i>The data of the Russian Federation is retrieved from the OECD (2021b), Federal Reserve Bank of St. Louis (2021), and The Central Bank of the Russian Federation (2021) databases.</i> <i>The data on Bulgaria</i> is retrieved from Eurostat (2021), the Federal Reserve Bank of St. Louis (2021), The Bulgarian National Bank (2021), and The European Central Bank (2021) database. <i>The data of Georgia</i> is retrieved from The National Bank of Georgia (2021) database.
Foreign Exchange Rates	Real Effective Exchange Rate (2010=100)	ER	GEM Database, Federal Reserve Bank of St. Louis (2021), IMF (2021), The World Bank (2021), and International Financial Statistics Data.
Transportation Costs	Distance of Country to Istanbul / Crude Oil Prices	TC	<i>Distance</i> data is retrieved from <a href="http://www.travelmath.com/distance/">http://www.travelmath.com/distance/</a> <i>Crude Oil Prices</i> is retrieved from The U.S. Energy Information Administration (EIA) (2021), and Imported Crude Oil Price (\$/barrel, Real) is used.
COVID-19	Dummy Variable	COVID-19	WHO database

### 3. Methodology

In this study, we followed the investigations of Lim (1997) and Yazdi & Khanalizadeh (2017) and examined the relationship between International Tourism Demand for Türkiye (hereafter TD), Transportation Costs (hereafter TC), Income Level of Tourist Source Countries (hereafter Y), Tourism Prices (hereafter TP), Exchange Rate (hereafter ER), and COVID-19 dummy (subsequently D) within the panel structure (Baltagi, 2013) as following:

$$TD_{it} = \beta_0 + \beta_1 TC_{it} + \beta_2 Y_{it} + \beta_3 TP_{it} + \beta_4 ER_{it} + \beta_5 D_{it} + \varepsilon_{it} \quad (1)$$

Where  $i=1,2,\dots,10$  and  $t=2000,2001,\dots,2021$

The subscript  $i$  and  $t$  respectively symbolize individual (country) and time in this model,  $\beta_0$  is intercept, and  $\beta_1, \beta_2, \beta_3, \beta_4,$  and  $\beta_5$  are the coefficients of explanatory factors, respectively. Lastly,  $\varepsilon_t$  represents the disturbance.

We explore the factors' time-series features before estimating the panel regression model. For this objective, we utilize Pesaran's (2007) CIPS panel unit root test and Hadri & Kurozumi's (2012) panel stationarity test. The main benefit of these procedures, also called first-generation tests, is that they enable a cross-section dependence which was used in studies like Hadri (2000), Levin et al. (2002), and Im et al. (2003). O'Connell (1998) stated that cross-section dependence between the series (group series) brought about these procedures to over-reject the null hypothesis about the unit root. To test this panel data-specific issue, we benefitted from Breusch & Pagan's (1980) LM test and Pesaran et al.'s (2008) bias-adjusted LM test. Moreover, these LM-based tests provided consistent results in cases where the time extent was broader than the individuals.

To check the cointegration in cross-section dependence across the residual, we applied Westerlund (2008) panel cointegration test. Westerlund's (2008) panel cointegration test checks the null hypothesis for the non-existence of cointegration and presents the appropriate critical values for the model, including multiple regressors. The primary benefit of this procedure is that it examines the  $I(1)$  and  $I(0)$  processes together. Through this flexibility, the Westerlund (2008) test is superior to other cointegration tests in the literature.

We applied panel Poisson and negative binomial regression methods to investigate the relationship between these variables, thoroughly employed to consider data described by the supremacy of zeros and minor rates (Greene, 2008). The second and third equations below indicate the fixed effects and include the panel Poisson regression model:

$$pr(y_{it}) = \frac{e^{-\lambda_{it}} \lambda_{it}^{y_{it}}}{y_{it}!} \tag{2}$$

$$\ln(\lambda_{it}) = x'_{it}\beta + \mu_i \tag{3}$$

In equation (2),  $\lambda_{it}$  denotes the average and variance of the Poisson distribution,  $y_{it}$  indicates the estimated factors vector, and  $x_{it}$  shows the independent elements vector. The symbol of  $\mu_i$  denotes individual influences. In the Poisson regression model shown in equation (2), the conditional mean and conditional variance functions are assumed as they are identical. Cameron and Trivedi (1998) and Crépon et al. (1998) argued that this was a rather binding presumption, especially in practice, and a significant defect of the Poisson model. To deal with this defect, we used the negative binomial regression.

Lastly, we examined the causal connection between factors and applied the panel causality test investigated by Dumitrescu and Hurlin (2012). Their test is an alternative design (Granger, 1969) and converges consecutive methods using individual Wald statistics. Moreover, it uses the standard normal distribution and the mean statistic's semi-asymptotic distribution for a fixed T sample.

#### 4. Empirical Findings

Table 4 represents the descriptive statistics, and Table 5 illustrates the Spearman correlation coefficients (because variables do not distribute normally; see Jarque-Bera Statistics in Table 4) across the variables. The most effective relationship with tourism demand is proxied by tourists' income level (Y), which represents foreign tourists' income, this result is similar to theoretical backgrounds. The coefficients expected from the regression models were also negative for TC and ER and positive for Y and TP, respectively.

**Table 4: Summary Statistics**

Statistics	P	TC	Y	TP	ER
Mean	1552203	25.58943	20707.73	109.0586	99.01508
Median	1100000	21.955	13617.49	100	98.29445
Maximum	7000000	71.95	48424.3	620.9	296.313
Minimum	136305	3.94	1420.12	25.6155	54.0592
Std. Dev.	1313599	15.63294	17124.22	68.93571	22.07718
Jarque-Bera	128.0861 ***	20.47323 ***	27.33678 ***	5273.71 ***	16626.61 ***
Observations	220	220	220	220	220

Note: \*\*\* shows the 1% significance level.

**Table 5: Spearman Rank-Order Correlation Coefficient**

Variables	P	TC	Y	TP	ER
P	1				
TC	-0.061	1			
Y	0.2101	0.3968	1		
TP	0.134	0.0643	-0.1363	1	
ER	-0.0001	0.1789	0.1563	0.111	1

**Table 6: The Results of Cross-Section Dependence Tests**

Variables	LM Test Statistics	Bias Adj. LM <sub>adj.</sub> Test Statistics	Results
P	468.7178 ***	44.4138 ***	CSD
CPI	819.9277 ***	81.4345 ***	CSD
ER	253.4490 ***	21.7725 ***	CSD
Y	578.0113 ***	55.9343 ***	CSD
TC	944.9994 ***	94.6183 ***	CSD

Note: \*\*\* shows the 1% significance level.

**Table 7: CIPS Panel Unit Root Test Results**

Variables	Intercept (CIPS Stat.)	Intercept & Trend (CIPS Stat.)	Results
P	-1.402	-2.678	-
$\Delta$ P	-4.001 ***	-4.016 ***	I(1)
CPI	1.857	-1.743	-
$\Delta$ CPI	-2.377 **	-2.744 *	I(1)
ER	-1.768	-1.745	-
$\Delta$ ER	-3.259 ***	-3.786 ***	I(1)
Y	-1.806	-2.124	-
$\Delta$ Y	-2.501 ***	-2.740 *	I(1)
TC	-4.996 ***	-5.028 ***	I(0)

Note: \*, \*\*, and \*\*\* show the significance level at 10%, 5% and 1% respectively.

This study investigated cross-section dependence before analyzing the variables' stationarity. We used the Breusch & Pagan's (1980) LM test. The bias-adjusted LM (hereafter  $LM_{adj}$ ) test was investigated by Pesaran et al.(2008) to check the cross-section dependence across ten countries' tourism demand towards Turkiye. The findings of Breusch & Pagan's LM test and Pesaran et al.'s (2008)  $LM_{adj}$  tests are illustrated in Table 6. These findings demonstrate strong evidence for cross-section dependence across these variables. For these variables, we utilized Pesaran's (2007) CIPS test with  $Z_A^{SPC}$  and  $Z_A^{LA}$  tests proposed by Hadri and Kurozumi (2012) since they consent for cross-section dependence. The findings of these panel unit root tests are presented in Table 7 and Table 8.

**Table 8: Hadri&Kurozumi (2012) Panel Stationary Test Results**

Variables	$Z_A^{SPC}$ Intercept	$Z_A^{LA}$ Intercept	$Z_A^{SPC}$ Int. &Trend	$Z_A^{LA}$ Int. & Trend
P	-2.433	-2.875	-1.385	-1.747
CPI	-1.603	0.292	1.591	3.853
ER	3.739	2.176	-1.158	2.107
GDP	0.221	1.329	-1.160	-1.570
TC	6.535	2.552	13.451	7.818

The results in Table.8 illustrates that the null hypothesis of unit root for all variables is accepted in nearly all states, and factors are integrated differently. These findings show that a cointegration relationship between the variables can be discovered. Before trying the cointegration connection among the variables, we investigated the cross-section dependence across the residuals and illustrated the findings in Table 8. This Table displays that we rejected the null hypothesis of no cross-section dependence across the residuals (for the cointegration model). Therefore, we used Westerlund's (2008) panel cointegration test as it considers the cross-section dependence across the residuals (called the second-generation cointegration test). Table 9 gives the panel cointegration test results. Furthermore, it illustrates that we rejected the null hypothesis of no cointegration for panel statistics ( $DH_p$ ) in these ten countries. This finding is essential theoretically (statistical theory) and practically. It indicates that variables tourism demand, transportation cost, prices, reel exchange rate, and income level of tourists are in a synchronized relationship in the long run.



**Table 9: Cross-Section Dependence and Panel Cointegration Test Results**

<i>Cross-Section Dependence Tests</i>		
LM <sub>adj.</sub> CSD Test Pesaran et al. (2008) for Cointegration Eq.	Test Statistics	24.551 ***
Weakly CSD Test Pesaran (2015) for Cointegration Eq.	Test Statistics	2.768 ***
<b>Panel Cointegration Test</b>		
Westerlund (2008)	DH Panel Stat. (DH <sub>p</sub> )	4.503 ***

**Note:** \*\*\* shows the 1% significance level.

The dependent variable and four regressors are cointegrated in this group of countries. Lastly, we reached a long-term connection among the factors and continued the variable levels for the rest of the paper.

Before estimating the regression model, it is essential to recall that while studying panel data, individual treatment is critical. Baltagi (2008) argued that the fixed effects specification was convenient as the focal point on a particular group of N countries. Because we only concentrated on the ten tourist sender countries, we chose personal effects as fixed as we use the panel Poisson and negative binomial regression models.

We implemented Poisson and negative binomial estimators to acquire the long-run connection between variables. Table 10 illustrates the Poisson and negative binomial regression results, respectively:

- Reel exchange rate (ER), transportation cost (TC), and COVID-19 dummy negatively affect tourism demand. Therefore, the increase in the mentioned variables decreases the tourism demand,
- The income level of tourists (Y) and tourism prices (TP) have a significantly positive link to the tourism demand in Turkey. In that case, the rise in the mentioned variables brings about an increase in tourism demand,
- Attention that the real significance of whole regressions is much more considerable, as demonstrated by Wald statistics.

**Table 10: Regression Results**

Fixed Effect Poisson Regression			Negative Binomial Regression	
Regressors	Coefficient	t Stat.	Coefficient	t Stat.
ER	-0.3554 **	-1.84	-0.3577 **	-2.05
TC	-0.2344 ***	-3.49	-0.3168 ***	-8.59
Y	1.4504 ***	3.89	0.6952 ***	9.62
TP	0.5337 ***	4.52	0.6221 ***	10.57
COVID-19 (as Dum)	-0.9299	-6.09	-0.9560 ***	-8.56
Wald Statistics	399.94 ***		383.27 ***	

Note: \*\* and \*\*\* indicate the significance level at 5% and 1%, respectively

After finding the long-run nexus between transportation cost (TC), tourism demand (TD), income level of tourists (Y), tourism prices (TP), and reel exchange rate (ER), we employ the Panel Causality test of Dumitrescu and Hurlin's (2012) to investigate the pairwise causal nexus (short-run) between these factors and present them in Table 11.

**Table 11: Pairwise Dumitrescu-Hurlin Panel Causality Tests**

Direction of Causality	W-Stat.	Zbar-Stat.	P-Values
Reel Exchange Rate → Tourism Demand	2.2194 *	1.88394	0.0596
Tourism Demand → Reel Exchange Rate	1.22969	0.15195	0.8792
Transportation Cost → Tourism Demand	0.14628 *	-1.74401	0.0812
Tourism Demand → Transportation Cost	0.56313	-1.01452	0.3103
Income Level of Tourist → Tourism Demand	1.19392	0.08937	0.9288
Tourism Demand → Income Level of Tourists	1.12504	-0.03118	0.9751
Tourism Prices → Tourism Demand	3.24681 ***	3.68193	0.0002
Tourism Demand → Tourism Prices	0.77929	-0.63625	0.5246
Reel Exchange Rate → Income Level of Tourist	0.29985	-1.47526	0.1401
Income Level of Tourist → Reel Exchange Rate	3.24053 ***	3.67093	0.0002
Tourism Prices → Income Level of Tourist	2.76227 *	2.83397	0.0046
Income Level of Tourist → Tourism Prices	1.21027	0.11798	0.9061
Transportation Cost → Income Level of Tourist	1.60646	0.8113	0.4172
Income Level of Tourist → Transportation Cost	0.75973	-0.67048	0.5026
Tourism Prices → Reel Exchange Rate	1.78232	1.11906	0.2631

Reel Exchange Rate → Tourism Prices	1.50352	0.63116	0.5279
Transportation Cost → Reel Exchange Rate	2.96896 ***	3.19567	0.0014
Reel Exchange Rate → Transportation Cost	0.68888	-0.79445	0.4269
Transportation Cost → Tourism Prices	1.18202	0.06854	0.9454
Tourism Prices → Transportation Cost	2.04573	1.58002	0.1141

Note: \* and \*\*\* indicate the significance level at 10% and 1%, respectively.

After detecting the long-run relationship (cointegration), we used the causality test to examine the short-term connection. Table 11 shows evidence for the causality relationship. The results also illustrate unidirectional causality from transportation cost, reel exchange rate, and tourism prices to tourism demand.

## 5. Discussion

This research examined the main economic factors of global tourism demand in Türkiye. For this purpose, we used the period between 2000 and 2021 for the first-origin nations with the highest inbound tourists to Türkiye. Tourism Demand for Türkiye (TD), Transportation Costs (TC), Income Level of Tourist Source Countries (Y), Reel Exchange rate (ER), and Tourism Prices (TP) were used as the tourism demand factors for Türkiye.

The results obtained from Westerlund's (2008) cointegration test showed a long-run relationship among the variables. The Poisson and negative binomial estimators illustrate that TC, ER, and COVID-19 dummies significantly adversely affect passengers. However, Y and TP significantly positively influence the passenger numbers. In the literature, findings on the coefficient of income were expected to be positive, such as Vanegas (2009), Crouch (1995), Akis (1998), Durbarry and Sinclair (2003), Dritsakis (2004), Munoz (2007), Wang (2009), Jintranun et al. (2011), and Cheng (2012), Tavares and Laitao (2017), Meo et al. (2018), Shafiullah et al. (2019), and Nadal and He (2020). An increase in income level in these countries is associated with increased tourist arrivals to Türkiye.

The finding on the price level was expected from the literature. In Durbarry and Sinclair (2003), Munoz (2007), Brida and Risso (2009), Wang (2009), Habibi and Rahim (2009), Vanegas (2009), Yamaura and Thompson (2015), Meo et al. (2018), and Shafiullah et al. (2019) showed that increases in the tourism price level in the home nation increased the tourism demand in Turkiye. Our estimation findings were similar to other studies mentioned in the literature review. The positive sign of the relationship regarding the tourism price indicates that a rise in the products and goods price bought by tourists in their countries is also affiliated with a rise in the global tourism demand from these countries to Turkiye.

Thus, to better understand the situation, it is necessary to interpret the effects of the price change variable and the difference in the exchange rate variable. Suppose an increase in the real exchange rate is also associated with increasing tourist numbers coming to Turkiye. In that case, it might indicate that the adverse effects stemming from price rises in Turkiye were countered/balanced by the positive outcomes associated with the foreign exchange rate.

If consumer prices increase, the living costs in foreign countries increase. Therefore, foreign tourist visits to Turkey are removed as a priority. For this reason, the rise in consumer prices abroad will induce the Turkish tourism demand.

This finding is like the adverse nexus between transportation costs and tourism demand identified by Crouch (1995), Dritsakis (2004), Munoz (2007), Brida and Risso (2009), Wang (2009), and Jintranun et al. (2011), Meo et al. (2018), and Shafiullah et al. (2019). Thus, a rise in transportation costs is linked with a reduction in the international tourism demand from countries toward Turkiye. In contrast, reducing transportation costs is related to increased international tourism demand in Turkiye. Considering that global crude oil prices have fallen considerably since June 2014, this will positively affect the increasing Turkish tourism demand.

Regarding the real exchange rate, it is expected that depreciation of the national currency compared to currencies of other nations (in other words, the

rise in the exchange rate in the home nation) will cause tourism centers to become even more appealing and increase the tourist arrivals to such nations. Tourism demand from the USA and the Eurozone to Türkiye is positively correlated with exchange rates if the host country's currency is more valuable than the Turkish Lira, then Türkiye as a tourism destination becomes more popular for them. The coefficient estimate of the real exchange rate is negative, which is like the studies of Crouch (1995), Dritsakis and Spiros (2000), Dritsakis (2004), Wang (2009), Vanegas (2009); Jintanee et al. (2011), and Cheng (2012).

## **6. Conclusion**

Due to the significance of international tourism in ensuring economic growth, employment, increasing foreign currency reserves, improving the domestic market, and increasing competitive strength and service quality, then being able to obtain a larger share in global tourism activities is a vital concern of a country such as Türkiye. Investigating the factors that determine international tourism demand from different perspectives using various methods is critically important to enhance the theoretical and practical aspects of tourism-related activities. To reveal this issue empirically, we applied econometric techniques. Among these techniques, Poisson and negative binomial regression models allowed us to reach general results.

Our empirical findings align with theoretical expectations and are consistent with the literature: Transport costs, exchange rate, and COVID-19 dummy are negatively and significantly related to tourism demand. In contrast, the GDP per capita and inflation rates are positively correlated.

The analysis that was performed was critical. The Dumitrescu-Hurlin Panel Causality test results showed unidirectional causality from the exchange rate, total cost, and CPI to tourism demand.

Considering the empirical findings of the current study, the policy recommendations, primarily related to the ten countries analyzed, are as follows: The low transport costs are essential for the countries concerned. Therefore,

solutions should be developed to reduce transportation costs in marketing activities for these countries. Such activities could cover travel packages including accommodation, charter flights providing cheap transportation, establishing high-speed train lines, etc.

To attract tourists from the remaining countries, policy designers should develop appropriate general strategies to decrease the general price level (i.e., inflation) and specific strategies focused on declining the price of tourism services. Regarding findings related to the per capita income of the origin country, we see that an increase in this variable increases the number of arrivals from the countries included in the analysis.

If policymakers want to attract tourist arrivals, then priority should be given to those enterprises providing innovative tourism services not included in other tourism locations preferred by the individuals of the mentioned countries. These policies could include promotions or subsidies and tax benefits to encourage entrepreneurship, investments, and activities in this sector. These strategies could increase the international competitiveness of Turkish tourism companies with alternative destinations in other countries. One of the most important problems of Türkiye's tourism market is that it offers low-priced tourism services. As a result, tourism revenues per capita are below the world average. Türkiye could minimize this issue by finding new-origin countries that offer high-quality and attractive services without lowering prices.

Locations in Turkey's Mediterranean region and the need for innovation on tourist routes that are preferred more against its rival destinations in Türkiye's tourism. Incentives and regulations should be made to make it a more preferred country in tourism against Mediterranean countries such as Italy, Greece, Spain, and Portugal, which are rivals in tourism. Türkiye's historical, cultural, and natural beauty and features must be brought to the fore for international promotion. Türkiye as a reliable, safe, advanced, and modern nation needs to be introduced to the whole World, especially to countries that send more tourists to Türkiye.

In addition, businesses and entrepreneurs operating in the tourism sector should be financially supported. Tourism is a sensitive sector affected by a fragile economic structure, with fluctuating political relations, unstable trade partners, and negative changes in macroeconomic indicators.

Tourism investors and entrepreneurs should be encouraged and supported against these sensitivities. Because the tourism industry brings foreign exchange and employment contribution to Türkiye's economy, it is essential as a significant revenue potential. Therefore, the added value for support and investment in the tourism sector is high.

In future studies, other origin countries with a relatively minor number of inbound tourists could be covered in an analyses. Additionally, the effects of different macroeconomic factors on tourism demand in Türkiye should be examined. Some microdata analyses using survey data on companies and tourists could be carried out to measure the effects of policy changes. Also, similar studies could be done for countries where Türkiye is competing for tourism. In addition, a panel data analysis for country groups, including Türkiye, could investigate the effects of macroeconomic variables on tourism demand. These analyses should be repeated periodically since significant changes that affect tourism demand can be observed annually.

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**Ethics Committee Approval:** Since this study does not require ethics committee approval, there is no ethics committee permission.

**Peer-review:** Externally peer-reviewed.

**Author Contributions:** Conception/Design of Study- B.D., A.A., F.A., M.A.; Data Acquisition- F.A., M.A., B.D., A.A.; Data Analysis/Interpretation- M.A., F.A., A.A., B.D.; Drafting Manuscript- F.A., B.D., A.A., M.A.; Critical Revision of Manuscript- F.A., M.A., B.D., A.A.; Final Approval and Accountability- F.A., B.D., A.A., M.A.

**Conflict of Interest:** The authors have no conflict of interest to declare.

**Grant Support:** The authors declared that this study has received no financial support.

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## Historicizing National Socialism and Mehmet Genç

### Nasyonal Sosyalizmi Tarihselleştirmek ve Mehmet Genç

Ahmet OKUMUŞ<sup>1</sup> 

#### ABSTRACT

National Socialism, more than just a political ideology, signifies one of the most convoluted historical events of the twentieth century. The depiction of the Nazi era in post-war historiography emerged as a contentious realm of debate. Distinct interpretative divides crystallized: on one side, the 'Sonderweg' theories asserting Germany's unique modernization journey, and on the other, perspectives anchoring events to the prevailing geopolitical dynamics and broader factors of the period. Germany's assertive strides under National Socialist leadership, especially during the 1930s, amplified the challenges of a nuanced treatment of the topic. In Turkey, amidst a landscape of contending modernization narratives, National Socialism had resonated with those seeking a more culturally attuned renewal. This study aims to scrutinize the Ottoman economic historian Mehmet Genç's evaluation of National Socialism. Genç's engagement with the subject goes beyond mere historical processes and political events, encompassing the philosophical background of National Socialism. The analysis will first delve into Genç's evaluation of National Socialism through the lens of the Sonderweg theses, then explore the foundational philosophical orientations that underpin Genç's academic perspectives and methodologies..

**Keywords:** National socialism, Mehmet Genç, Sonderweg, Wagner, Nietzsche, Hitler

**JEL Classification:** B00, N00, P00

#### ÖZ

Nasyonal Sosyalizm, bir siyasi ideoloji olmanın ötesinde, yirminci yüzyılın en çetrefil tarihi vakalarından birine işaret eder. Nazi tecrübesinin tarihe nasıl kaydedileceği savaş sonrası tarih yazımının en çetin bahislerinden biri olmuştur. Hadiseleri Almanya'nın benzersiz bir modernleşme sürecinden geçtiğini söyleyerek açıklayan 'özel yol' (sonderweg) tezleriyle, olan biteni dönemin cari güç dengeleri ve daha genelleştirilebilir etkenlere bağlayarak izah eden yaklaşımlar arasında ciddi yorum farklılıkları ortaya çıkmıştır. Almanya'nın Nasyonal Sosyalist idare altında sergilediği atılımın etkisiyle özellikle otuzlu yıllarda uyandırdığı olumlu ilgi de konuyu yetkin biçimde işlemeyi zorlaştıran hususlardan biri olmuştur. Nasyonal Sosyalizm, alternatif modernleşme anlayışlarının mücadele içerisinde olduğu Türkiye'de de toplumsal bünyeye uygun daha sahil bir kültürel yenileşme arayanlar arasında merak uyandıran bir



DOI: 10.26650/ISTJECON2023-1366916

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Submitted: 26.09.2023

Accepted: 26.10.2023

**Citation:** Okumus, A. (2023). Historicizing national socialism and Mehmet Genç. *Istanbul İktisat Dergisi - Istanbul Journal of Economics*, 73(2), 865-884.

<https://doi.org/10.26650/ISTJECON2023-1366916>



mesele olmuştur. Bu çalışmada Osmanlı iktisat tarihçisi Mehmet Genç'in nasyonal sosyalizme dair değerlendirmelerinin tahlili amaçlanmaktadır. Genç'in konuyla ilgisi tarihi süreçler ve siyasi hadiselerle sınırlı kalmamış, Nasyonal Sosyalizm'in felsefi hazırlayıcılarını da içeren bir kapsama doğru genişlemiştir. Çalışmada, önce sonderweg tezleri bağlamında Mehmet Genç'in Nasyonal

Sosyalizm üzerine değerlendirmeleri, ardından aynı değerlendirmelere temel oluşturan felsefi yönelimlerin Genç'in ilmi tavır ve yaklaşımlarındaki yeri incelenecektir.

**Anahtar kelimeler:** Nasyonal sosyalizm, Mehmet Genç, Sonderweg, Wagner, Nietzsche, Hitler  
**JEL Sınıflaması:** B00, N00, P00

"Loving Wagner, living the *Mahur*. Such was our destiny." *Tanpınar*

## 1. Introduction

Although it is now judged as a counter-model or even a case of pure evil, National Socialism had made a striking impact on the world stage as a social and political option in the first half of the twentieth century. There were those who sought to rationalize National Socialism through philosophical discourse, while others embraced it as a potent blueprint for national progress, primarily driven by practical considerations. In addition to thinkers who glorified National Socialism as a reaction to a new stage in the history of Being (Heidegger, 1959, p. 199)<sup>1</sup>, there were intellectuals who idealized it as a third way between the liberal capitalist West and the authoritarian socialist East (Runciman, 2013, p. 76-110). The ideology drew its inspiration not just from Germany's position within the contemporary balance of power, but also from its commitment to addressing the most critical requirements of nations endeavoring to pursue modernization amid the complexities of various structural and cultural challenges. National Socialism propagated some attractive visions for those seeking a more authentic, indigenous, and organic mode of modernization (Jaraus, 2018). Moreover, some of these appeared to be more than mere visions; they came to be appreciated as proven principles of progress in the case of Germany, a country that was rapidly rising and recovering from its postwar obstacles. This very ideology would go on to influence Turkey, where various models of modernization were contending both in terms of concepts and actions. In Turkish intellectual

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<sup>1</sup> Martin Heidegger famously spoke of the "inner truth and greatness" of the National Socialist movement.

circles, there were also individuals intrigued by national socialism. To formulate a "national social policy" (*milli içtimai siyaset*) in the face of "the social question" (*sosyal mesele*) in Turkey, it might have been beneficial to examine contemporary Germany (Kansu, 2003). The favorable views towards Hitler could not be regarded, as in Yakup Kadri's ironic remark, as mere "admiration for God's sake" (*fisebilillah hayranlık*); for those who sought for suitable prescriptions for concrete social issues, such sympathies were due to the remarkable progress Germany had made during the 30s.<sup>2</sup> In this study, the aim is to analyze Mehmet Genç's approach to National Socialism, one of the most important Ottoman historians who left his mark in the field with his extraordinary and broad intellectual pursuits. The problem of explaining the rise of National Socialism, which emerged as one of the most controversial and thorny issues in recent historiography, constitutes the broad context of this study. It tries to interpret Genç's interest in the subject as a historian and scholar by relating it to some important historical theses on National Socialism.

## 2. The Problem of Historicizing National Socialism

Mehmet Genç's most explicit and direct assessments of National Socialism appear in his introduction to the translation of Hitler's *Political Testament*. As one might expect, this piece, which Genç penned in 1966 but allegedly willed to be posthumously published by his name, mirrors the sentiment of the period. Genç (2022) starts by talking about a climate of conflict, stating that the conflict does not end even if the war ends, emphasizing that the war now takes place within societies, "in social groups, in the consciousness of individuals". When considering that student movements had commenced in 1966, as of the time this text was written, and had gained significant momentum and explosiveness in '68, it becomes evident that this observation and emphasis on conflict signify the tumultuous events of that era. Conversely, the international setting, which was on the brink of entering the

<sup>2</sup> In his documentary novel *Panorama*, Karaosmanoğlu (2018 [1953]) says, "The number of those who admired Hitler was increasing", and a little later, he has one of his protagonists tell him that the 'new order' of National Socialism is "a will to comprehensive development born out of the restlessness of the masses of the people who are sick and tired of unruly economic systems and unruly forms of administration in almost every country".

phase of the Cold War known as “détente,” would temporarily ease the atmosphere of ideological tension. The political ideological climate had already begun to transform at the very time when Genç was writing his introduction. We cannot be certain of Genç’s thoughts on these issues in the aftermath or how he interpreted the new context. However, it’s evident that the prevailing atmosphere that had inspired the piece had, to some degree, evolved and changed. More importantly, however, some crucial debates and transformations were well under way especially in the historiography of National Socialism.

How to narrativize the Nazi experience, how to register National Socialism in history, has been one of the most difficult questions of post-war historiography. The deepening conflicts of historical interpretation regarding National Socialism came in waves, each time gaining new dimensions in accord with the political priorities of the era. Historian Enzo Traverso (2019, p. 106-110, 2013, p. 100-119) known for his important work on the public use of history and the politics of memory, for example, suggests that we can distinguish between five waves of debate. While some of these debates stem from methodological concerns, others are more directly anchored in contemporary social and political issues and have wider public implications, addressing the German and the wider European context under transformation. It often turns out to be an assessment of the German present, a debate aimed at constructing the political consciousness of the present, rather than an enquiry into the actualities of the Nazi history. When the same file was reopened after the German unification in the nineties, for instance, the subject came to be a matter of reconciling with the past and restoring identity in the context of the integration problems of the country at the time. Both the endeavor to historicize National Socialism and the imperative of memory-building on it, i.e., truthfully objectifying it as a historical topic (in Genç’s terms “achieving objectivity”) while at the same time properly recording it in memory as an exemplary case of human tragedy and moral failure, have been pivotal to the debates of the past half-century.

Since Genç’s text precedes most of these debates, he could not have had the opportunity to engage in an intellectual exchange with these methodological or



normative concerns while developing his interpretations of National Socialism here. Nonetheless, there are intriguing aspects in his arguments that can be compared with certain lines of research on National Socialism. In its basic thrust, the text seems to be closer to the exceptionalist approach evaluating National Socialism as an entirely different, almost unique case rather than reading it either in terms of the leftwing theories of fascism or the liberal interpretations of totalitarianism. Genç contends that although the “opposing forces” of the century, namely, capitalism and Marxism, are “united in strangling their rivals by identifying them under the names of Fascism and Nazism”, the latter are in fact “travelers of the third way” who are pursuing “some kind of reconciliation”. Such an interpretation would bring him very close to a form of the famous *Sonderweg* thesis, which states that Germany followed a peculiar direction in its quest for modernization and therefore ended up in National Socialism.

### **3. German Exceptionalism or the Possibility of Unique Modernization**

Many have wondered how Germany, after periods of great progress, could descend into the horrors of the 1930s. Why was this country unable to escape the challenges of the new age despite all its achievements? Why did it turn into a whirlpool when it was being praised as a pole star? A significant part of the answers to these questions clustered around a thesis called *Sonderweg* (special path). According to this thesis, Germany was dragged into a dead end because it followed a unique, special, or original path to modernization, and when it could not resolve the internal contradictions of this path, it became the scene of a catastrophe. Despite all the impressive developments in the German basin, the country could not resist succumbing to a flawed and even self-defeating form of modernization. Although the modes of production had improved, new social classes had not succeeded in replacing the old elites. The bourgeoisie had emerged, but it displayed a chronic incapacity to assume political responsibility. Historians even speculated about the feudalization of the bourgeoisie in Germany. Civil society developed, but it could not overcome the military domination of the status quo actors like the famous Junker network, especially in the case of Prussia (Eley, 2018). Parliamentary representation was in a continuous struggle for

survival, and liberal democracy remained no more than a fragile enterprise. Even if new social forces emerged in modernizing Germany, they were unable to replace the established power elites. The Weimar Republic would ultimately crumble under the authoritarian structures that had been breeding for centuries.

While this mode of explanation, at times leaning towards more essentialist arguments by associating the issue with the entire German mindset, fostered a stereotypical understanding of the subject, it also faced a multitude of criticisms. These critiques emerged as more parties engaged with the question, generations evolved, and research methods grew more refined. The first objections came from revisionist authors with conservative (or liberal conservative) leanings who complained that the thesis of the special path to Nazism had begun to create for Germany the complex of a "past that did not pass". Indexing an entire history to a specific era (1933-45) and turning it into a focus of negative identification for the nation had left almost no positive historical references for the German self-conception and had transformed German self-confidence into German self-doubt. Germans should not have accepted being a stigmatized nation and should have been able to draw inspiration from the untainted sources of the "other Germany" whose place in history was clear. The second line of criticism is based on methodological skepticism about the procedures of historical comparison that agrees to isolate a particular historicity and call it a "special path". To speak of a special path would understandably imply the assumption of a standard or normal path, where the criteria are almost always drawn from the British, the American or the French cases. It was because the German world deviated from their examples, which paved the true path of modernity, that it sunk into the Nazi catastrophe. However, such criteria usually preclude the explanation of things with their own dynamics and sideline alternative grounds of comparison. The (Western) Eurocentric view of a normal path can be misleading not only when applied in non-European contexts but even in the context of Europe that includes several different national heritages. Taking the Nazi era as an axis, projecting National Socialism backwards by looking at it through what some historians call an inverted optics, and narrating the entire past as but a prologue to Nazism will obscure or distort the processes that need to be studied within their own historical

specificities. In a third cluster, extending upon this line of criticism, we encounter endeavors to assess the credibility of the thesis across different domains. The empirical foundations of the special path thesis are questioned by multifaceted studies focusing on the scale of bourgeois development, the depth of civil society, and the diversity of social reactions and the initial orientations (with unintended consequences) of different subgroups in the face of National Socialism in Germany (Kocka, 1988; Everett, 2015; Blackbourn and Eley, 1984; Kocka, 2010).

While all these criticisms highlight the flaws in the *Sonderweg* thesis and, to some extent, write it off as a readily available, almost mechanical explanation, they haven't resulted in its complete abandonment. On the contrary, there are serious supporters of the thesis who believe that it can be salvaged despite all dissatisfactions. Some of them believe that the idea of a special path leading to National Socialism is essential for Germany to stay on its democratic course. In a sense, this dark past provides an anchor for democratic political imagination and memory. For example, according to Jürgen Habermas (2001), who opposed revisionist readings of history during the famous "historians' debate" (*Historikerstreit*) of the 80s, it was this memory that made "adherence to universalist constitutional principles" possible in Germany. The historian should not be an uncritical guardian of the national heritage, but one who can lead critical dialogues on the past in the name of a well-deserved self-confidence for the future.<sup>3</sup> Those who still recognize the thesis as valid in this fashion argue that until an alternative and equivalent model or narrative of historical continuity is established, the special path explanation will remain effective. In the end, as Jürgen Kocka (2018) makes clear, the special path thesis has not been falsified, but has become relativized and less important, despite getting more nuanced.

It was already mentioned that Genç's views on the German experience and National Socialism seem comparable to a variant of this approach. Admittedly,

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<sup>3</sup> The issue has once again come to the fore today. The political climate and the need for a new geopolitical positioning in Europe in general and in Germany in particular that have emerged with Russia's invasion of Ukraine caused a relapse of historical sensitivities. For an article by Habermas, in which he deals with the issue by foregrounding German memory and identity again, and which has sparked serious debates, see Habermas (2022). For a good review of Habermas's piece, see Tooze (2022).

this judgement may sound quite strange at first glance, since we do not hear much of the negative and critical tone that dominates the *Sonderweg* thesis in his evaluations. There is nothing to suggest that he regards the German way as a deviation, a departure from the standard course. But this is because his standpoint corresponds more to the positive interpretation of the *Sonderweg* of an earlier generation of historians, with roots going back to the 19th century. Genç's account essentially reflects the long-abandoned positive version of this thesis (positive *Sonderweg*), whose negative version (negative *Sonderweg*) would also be questioned to a great extent from the 70s onwards.

Indeed, the first form of the thesis was based more on a German success story (positive *Sonderweg*) (Everett, 2015; Olsen, 2012, p. 15, 246-249; Kolasi, 2020). In the 1830s, Heinrich Heine (2007, p. 116-117) had already expressed it in a series of uncanny prophecies: "... But it will come and when you hear crashing, as it has never crashed before in all of world history, you will know, German thunder has finally reached its goal ... A play will be enacted in Germany which will make the French Revolution look like a harmless idyll ... And the hour will come. As on the rows of an amphitheater, nations will gather around Germany to see the great games of battle." For a country that had not yet achieved its political unity, these were liable to be seen as ambitious wishes. As a matter of fact, about a decade later, another poet expressed the country's lack of direction by stating that "Germany is Hamlet". However, in the 1870s, when Germany had already united and recovered, the situation would once again be described through the same Shakespearean character: "Germany is not Hamlet." (Again, in the 1940s, it was emphasized that the German artist was not Hamlet either. With the Führer, the poet was no longer a tragic figure) (Höfele, 2016; Dobson, 2009; Vonberg, 2015).

At the end of the 19th century, when this self-confidence transformed from poetic prophecy to historian's interpretation, it formed the basis for explanations that Germany had achieved its longed-for greatness through a unique path. From Leopold von Ranke onwards, several historians attributed the experience of ascendancy, which was characterized by a particularly strong state tradition, to a uniquely German spirit. Germany had discovered its potentials thanks to astute

statesmen like Bismarck, the ideal of *Bildung* as a conception of human excellence, a university model based on this conception, and a culture positioned against a materialistic civilization (the West, particularly France), on the one hand, and an authoritative state positioned against an autocratic East (Russia), on the other. Friedrich Meinecke, a prominent figure in German historiography, once portrayed Germany as a unique blend of culture and power. This country of *kultur* was now getting able to assert itself against civilization and take its rightful place on the stage of history.<sup>4</sup> In the aftermath of the Second World War, however, Meinecke abandoned the element of power in this combination, but continued to emphasize the part of culture. He desired Goethe reading groups to be organized across the country and hoped that Germany would be rehabilitated and revitalized as a nation of culture. In a way, he foresaw the remedy in the form of a collective educational and cultural mobilization following the devastation. He imagined a country where people gathered every Sunday to read Goethe, Schiller and Hölderlin, while listening to classical music (Forner, 2014, p. 120; Gay, 2023, p. 92-93, 122-125). Meinecke did not view the catastrophe that had befallen the country as a product of a uniquely German ailment or flaw, but rather as one of the consequences of the broader European modernization and civilization process. He thus believed that the Germans had their own home-grown resources to revive as a culture-nation.

Mehmet Genç's interpretation seems comparable to that of Meinecke, who adopted this earlier and more positive form of the special path thesis, although he later partially modified it. In his discussion of the German adventure, Genç resorts to a similar equation of "culture and power": "It is the eruption of a culture that has created the greatest of all that has been done in the name of Western Civilization since the beginning of the 19th century, the Germanic culture, with which no other culture can compete in the field of human achievements from philosophy to music, in its claim to political power." This eruption would certainly spark a war. In fact, the First World War had broken out because of "German

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<sup>4</sup> Thus, according to Elias (2023, p. 163), "in the late 19th and early 20th centuries, as the concept of 'culture' came to mean more and more 'national culture', its old humanist and moral 'connotations' were pushed into the background and eventually disappeared altogether."

hunger and British stinginess". But in the first war, "instead of being satiated, Germany lost what it already had." This first great loss would not stop "the most dynamic and great nation in Europe". "In the end, the gap between its potential power and what it was able to obtain would become a catalyst for a desire for more than it deserved". It was surrounded by "states which, in spite of - or because of - their pragmatic and simple culture, divided the world". In his view, then, the German experience had taken its place in the silhouette of the age not because it was stuck in its pre-modern, unrenewed historical legacies by negatively diverging from the 'normal' line of modernization (negative *Sonderweg*). Instead, it was progressing towards a political stature and identity that matched its competence in various other domains. It demanded a political existence worthy of its superior culture. While becoming a giant in culture, it could not remain a dwarf in power. The story's conclusion, however, depicted a nation that displayed greatness in every domain, yet its pursuit of political might spiraled out of control. In a sense, Germany had been defeated by its own achievements, a judgment that can be seen as a reflection in Genç's historical approach of the tragic sentiment that permeated his spirit and suited him so well (and endeared Nietzsche and Unamuno to him), despite his always cheerful demeanor.<sup>5</sup>

Germany had experienced both victory and defeat, but in Genç's words, "one more thing was necessary for all these 'musts' to come into being. This was Adolf Hitler, and he came."

#### **4. Beyond Hitler-centric Readings**

One of the ideas circulating in Germany in the late 1920s was that a führer was needed to "save culture" or, in Koselleck's words, "to save *Bildung*", which was in crisis after the war (1918) (Koselleck, 2009, p. 155). In a society crushed first by war and then by economic depression, it is not surprising to find a call for a savior like how Machiavelli does in the last part of *The Prince* – recovery requires

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<sup>5</sup> Surely, having a tragic intuition does not mean being committed to a tragic worldview, to tragedy as a worldview, or, as Jaspers (1952) puts it, to a kind of "pan-tragedy".

*f hrerbildung*. The expected leadership is sometimes described as follows: "The true *F hrer* must reflect the diabolical vitality of the spiritual forces that characterize the age" (Koselleck, 2009, p. 155). But it only took a generation or two for the whole mentality to dissolve. Germany's defeat was to be an experience that would undermine the *F hrer* principle and all the associated conceptions of leadership. In the post-1945 German consciousness, Hitler could only be an anti-hero, a counter-model. Consequently, one common approach to examining the Sonderweg has often involved exploring the personality traits within German society that gave rise to Hitler.

The depiction of Hitler in historiographical studies over the last half century markedly contrasts with the one presented by Gen. Hitler now appears as a smart but narrow-minded ball of arrogance, with mediocre interests, making wrong decisions and insisting on them, avoiding controversial and error-prone issues, especially by postponing domestic political decisions, and thus sculpting his own statue by trying to perpetuate a crystal image of infallibility. Undoubtedly, when it comes to Hitler, ideological and emotional cleavages are so strong that there may be no limit to criticism, and, as Gen says, it may at one point lead to the impasse of praising the victor and beating the vanquished. Hence, in-depth studies like those found in the seminal works of historian Ian Kershaw tend to place less emphasis on hyperbolic personality analyses. Instead, they concentrate on elucidating Hitler's actual influence within the Nazi state's power structure, his role in the practical operation of the governing machinery, and the fundamental question of whether power was primarily monocratic or polycratic. Of course, such a story cannot be told without considering the personality and worldview (*weltanschauung*) of the anti-hero. Nevertheless, substantive attempts to historicize National Socialism try to avoid the mistake of "over-personalizing complex issues" and "reducing them to Hitler's personality and ideology" (Kershaw, 2015).

So, how to read Mehmet Gen's descriptions attributing a depth, perhaps a dark depth, to Hitler? What should we make of his references to Hitler as "this dark genius", "this evil genius", or this "abyssal genius"? One can argue that,

according to Genç's perspective, we cannot comprehensively analyze individuals like Hitler solely by labeling them as evil. To categorize such phenomena merely as embodiments of evil would be an oversimplified and insufficient way to comprehend them. These are individuals whose character is susceptible to a broad spectrum of emotions and their success (!) partly comes from their disposition to emotional oscillation. They might cry where most would not, get excited about an event that is not a source of enthusiasm for others, or get aroused by an experience that would not inspire anything in others. Such might indeed be the inner world of most statesmen and leaders in the highest echelons of powers whom we dislike. The legacy of some, who are commonly associated with evil, could even be seen as presenting more appropriate themes for a discussion on theodicy: political theodicy. They cause untold suffering, march to power at the cost of countless lives, and some of them manage to rule societies for decades. They provide more substantial material for an investigation regarding divine justice than most conventional topics within the field. Nevertheless, in most cases it would be inaccurate simply to assert that what motivates these personalities is pure evil. A one-dimensional malevolence is not enough to tell their stories. Yesterday and today, this has always been one of the basic simplifications one can fall into when evaluating such figures of power. This is the opposite pole of the enchanting, hagiographic readings that idolize and treat them as mortal gods. Either way, flesh and blood humans are portrayed in an augmented reality, whether under a negative or positive light. Mehmet Genç may have had these intuitions in mind when he talked about the "multi-dimensional, dark and complex spirit of Adolf Hitler". He does not want to make the mistake of turning a real figure into a straw man. He appears reluctant to do so, but in the process, it seems that he extends beyond the previously mentioned perspective and assumes a framing that might raise concerns. This framing involves portraying Hitler with all the positive attributes of the German people, aligning him with the great figures in German history, and even suggesting him as a successor to them. Thus, Hitler becomes not only power but also culture, or the fusion of culture and power in a German body, the expected *führerbildung*. For instance, could there be a hint of irony in his description of Hitler as an "artist"? Could this be an allusion to a person who aestheticizes violence? It is not easy to judge. "He was a painter



and his interest in painting was ... definite and intense." "He was a master of architecture, this art of the mind challenging matter." "We are only now learning that he wrote poems and stories." In music, "in this magical art of sound, he found himself full and complete", but there, recognizing the limit called Wagner, "he was content to remain a listener". "After Richard Wagner, music could no longer be made or written, but only listened to and understood." Hitler was "such a Führer as to align all the German giants along the same line of character, as if they had not prepared him, but he had plunged them backwards into the past as fragments of the German romanticism which had culminated and exploded in him".

The discourse here occasionally appears to fall into what is now criticized as being overly Hitler-centric, as evidenced by sweeping statements like "from Luther to Hitler". By foregrounding Hitler, described by Mehmet Genç as a "foggy and crazy mystic", there's a risk of reducing an entire cultural bloom to this mere imitator of *Rienzi*, this would-be *Parsifal*. In this introduction to the translation of Hitler's *Political Testament*, he may have wanted to dwell more on the Führer himself. However, the authenticity of the testament itself is also regarded as highly questionable today.<sup>6</sup>

## 5. Aesthetico-philosophical Paths to National Socialism: Wagner and Nietzsche

National Socialism is often characterized as a mythology or even as a "political religion". Conversely, some argue that the Holocaust has evolved into a form of civil religion today (Traverso, 2016, p. 123-137). Mehmet Genç also describes National Socialism not as a regime or ideology but as "a style, a psychology, a mythology". It can be suggested that this description bears traces of Genç's interest in Wagner and Nietzsche, an interest which is much spoken about but not

<sup>6</sup> The authenticity of the testament published by Trevor-Roper, which Mehmet Genç refers to and which forms the basis for the translation, has not been confirmed despite the passage of decades. Even if the text reflects the overall atmosphere of Hitler's circle and the manner of thinking prevailing there, the claim that it was dictated by Hitler himself and the subsequent chain of transmission has not been verified. In the Ottoman-Turkish context, the issue is somewhat reminiscent of the case of *Sultan Abdülhamid's Memoirs*. For a recent and comprehensive study on the subject, see Nilsson (2019).

explained a lot. Constructing a new mythology, originating believable myths, was the true dream stimulating this aesthetico-philosophical initiative – to establish a new public religion on “total art”, to realize a kind of transubstantiation through art, and to create a new and *überhumanity*...

Nietzsche had once served as a fount of inspiration for conservative thought, more warmly embraced by the right than the left. To the left, he epitomized right-wing extremism, with Georg Lukacs (2006, p. 303-394), for instance, discerning in Nietzsche the genesis of a trend towards irrationality. Today, although diverse factions of the left unearth useful insights in his works, Nietzsche's elitist tendencies remain a polar opposite. Efforts to render Nietzsche conducive to democratic thought endure, yet his ideas, susceptible to aristocratic interpretations, easily garner influential adherents (Drochon, 2016, p. 71-75; Beiner, 2018). While Genç's Nietzsche aligns more with the right's interpretation than that of the left, it's not quite accurate to say that he predominantly extracts conservative tendencies from Nietzsche. Viewing him in juxtaposition with Wagner, Nietzsche emerges as a figure resisting the erosion of thought's musicality, or the stripping of melody from ideas. For Nietzsche, music provided cognitive avenues allowing the mind to delve into the otherwise inaccessible abysses (Strong, 2012, p. 57-90). Genç (2000, p. 31) echoed this sentiment, often noting that when faced with an insurmountable problem in his studies, turning to Wagner's compositions would guide him to a resolution. Just like Nietzsche's musical approach to philosophy and philology, Genç endeavored to perceive history through the lens of musical subtleties (Safranski, 2002, p. 59). Wagner's music not only helped to clarify the difficulties he encountered in his research practice, but also provided him with a structural archetype, a kind of pattern for understanding Ottoman customs and institutions. He believed, like the elusive beginnings and endings in Wagner's compositions, the Ottoman empire had intricate structuring processes that made it difficult to capture how institutions begin and end.<sup>7</sup> Genç also articulated his lifelong connection with

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<sup>7</sup> I suppose *Tristan und Isolde* is Wagner's most relevant opera in view of Genç's description here. The opera begins with the Tristan chord, which would become one of the most famous chords in the history of music, but it does not move according to the traditional rules of tonal harmony, it does not proceed towards a harmonic resolution, and it transitions to a new chord, all in all evoking a sense of endlessness. I think when he made this comparison with the Ottomans, he had specifically *Tristan* in mind. For Genç's quote, see Böhürler (2023).

Ottoman history drawing upon Nietzsche's metaphor of the abyss: "Nietzsche says that if you gaze long into an abyss, the abyss also gazes into you. I peered into the Ottoman abyss, and it peered into me. Consequently, we almost fused."<sup>8</sup>

In fact, the attempts to account for Genç's interest in or admiration for Wagner and Nietzsche can be divided into three clusters. Firstly, some seem to use it only to demonstrate the broad and high cultural interests of a master historian. Secondly, there are those who think that we can trace here the philosophical seeds of a statist-nationalist-voluntarist orientation. According to a third approach, Wagner and Nietzsche's critique of economics and capitalism constitutes the main motive behind the interest Genç as an economic historian had in the duo (Özel, 2021; Çakır, 2021; Ayvazoğlu, 2022; Küçükkalay, 2022). Nonetheless, a fourth dimension, equally significant, must be introduced into these narratives, each of which offers varying degrees of explanatory power: Mehmet Genç drew his metaphysical consolations, to a significant extent, from the affective-cognitive templates of Wagner-Nietzsche line of thought.<sup>9</sup> How we conceive life, to use a technical word, how we ontologize it, is the key to many of our attitudes. Speaking of life or existence as an abyss is full of metaphysical implications. To suppose that we go on and on and finally arrive at an abyss has a nihilistic ring to it. But if you

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Regarding Genç's passion for Wagner's music, see Ayvazoğlu (2022, p. 78-84) and Ayyıldız (2022, p. 85-88). On Wagner and the Tristan chord, see Ekren (2016, p. 130-32).

<sup>8</sup> Nietzsche's (2002[1886], p. 69) famous aphorism goes like this: "And when you stare for a long time into an abyss, the abyss stares back into you."

<sup>9</sup> In his comprehensive biography of Mehmet Genç, Beşir Ayvazoğlu (2022, p. 71-72, 82-83), referring to Tanpınar's statement, which we also include in the epigraph, says that Mehmet Genç "had begun to listen to and live Wagner before he lived *Mahur Beste*, and this is a phenomenon we have no other example of". This is true in the sense of the philosophico-musical climate where Genç had wanted to penetrate and perhaps lose himself. For three reasons, however, one can still argue, just as Tanpınar expressed, that he loved Wagner and lived the *Mahur*. First, in terms of his practical life context, Mehmet Genç lived here, that is, in the climate of *Mahur Beste*. Whatever Wagner is and whatever he represents, Genç lived where it did not circulate at all. Secondly, although he was metaphysically interested in the abyss and admired those who could gaze into it, he could not go much further in that direction either. It is hard to determine if it would have been otherwise if our historian, who was once called 'Nietzsche Mehmet', had continued in philosophy. I don't think we know of anyone exemplifying what it means to gaze into the abyss in this country. This might be considered in relation to Şerif Mardin's famous observation, to which Ayvazoğlu also refers, regarding the absence of the demonic attitude in Turkish thought. The third is related to the peculiarity of the *Mahur* composition or the *Mahur* makam in that in its melodic progression it follows a descending sequence. Similarly, intricate issues of Turkish society and politics recurrently tend to generate such descending courses or trajectories in life. Throughout his life, Mehmet Genç also witnessed many such trajectories. Accordingly, even though he embodied a kind of Turkism in orientation, he had many allusions about Turkey and Turks that sometimes looked like a witty cynicism.

mold it with an idea of majesty, of the sublime, it can also lead to a sort of fideism. Genç's inclination towards the abyssal cannot be deemed as an indiscriminate tendency, a desire to embellish knowledge or a merely aesthetic gesture.

Another noteworthy point here is that Genç's writing on National Socialism contains a tone of voice, an emotional prism that we do not frequently encounter in his mature writings. In his later and more well-known works, we consistently see the historian expressing himself with analytical caution, employing a measured discourse. In this text, on the other hand, one notices a certain amount of enthusiasm, some exuberance. Perhaps, there was something in his soul that was susceptible to what Nietzsche (1980[1874]) called "monumental history" in *On the Advantage and Disadvantage of History for Life*. In this regard, his resemblance to Ernst Kantorowicz is notable. Kantorowicz stirred the historical community with his initial work, *Frederick II* (1927), a book even Hitler claimed to have read twice. This Jewish German nationalist, formerly a regular in poet Stefan George's circle, adopted an epic narrative style devoid of footnotes. Fast forward thirty years, his now classic work *The King's Two Bodies* (1957) emerged in a vastly altered milieu where notions of Germanness and nationalism had waned. Delving into a significant facet of political theology, this work exhibited a marked evolution in linguistic detachment, rigorous source utilization, and analytical acumen (Höfele, 2016, p. 91-94; Gay, 2023, p. 71-73). Mehmet Genç consistently exhibited a distinct care in both his scholarship and lifestyle—a hallmark we might describe as characteristically his. Yet beneath this measured exterior, a trace of ecstasy lingered. He harbored a fascination for the abysses and those daring enough to gaze into them, concealing metaphysical passions beneath the historian's prudence. Genç embodied a blend of *rind* and *zahid*, or, drawing upon a Nietzschean contrast, he epitomized a union of *Dionysus* and *Apollo*.

## 6. Conclusion

Examining certain personalities' perspectives on National Socialism can provide insightful and yet unexplored avenues for comprehending specific trajectories and facets of our intellectual history. The forms and extent of National Socialism's impact

continue to be an expanding and dynamic field of research. There is even a contention among some that, had Nazism not been antisemitic, it might have found support even within some Jewish circles and groups. Mehmet Genç's ongoing interest in this subject was not a hidden or unknown aspect of his intellectual itinerary. The point is to probe the layered motivations underpinning this interest and the alterations it underwent. As proposed in this article, analyzing Genç's assessments of National Socialism in relation to the *Sonderweg* debates could provide a rich framework for addressing some of our persistent issues in Turkey. This distinctive historian, devoted to deciphering the multifaceted processes underlying the rise of a vast empire and its evolution into modernity, employed tools and resources ranging from conventional methods of historiography to unusual musical intuitions. In dealing with the case of National Socialism, he sought explanatory insights into the dilemmas associated with the projects of national modernization. It is highly probable that he was not able to engage at length with the developments in the historiography of National Socialism that advanced and diversified over the past half century, that is, long after he was particularly interested in the subject. However, it is not hard to read his understanding of the German path to modernity in connection with the literature on the thesis of a positive *Sonderweg*. In this context, although his piece on National socialism belongs to his early legacy, or the early Mehmet Genç, the question over whether Turkey has followed, will follow, or should follow a unique path seem to have occupied him throughout his life – a question still worth pondering today.

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**Ethics Committee Approval:** The content of the study does not require ethics committee approval.

**Peer-review:** Externally peer-reviewed.

**Conflict of Interest:** The author have no conflict of interest to declare.

**Grant Support:** The author declared that this study has received no financial support.

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Mucchielli, A. (1991). *Zihniyetler* [Mindsets] (A. Kotil, Trans.). İstanbul, Türkiye: İletişim Yayınları.

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Ören, T., Üney, T., & Çölkesen, R. (Eds.). (2006). *Türkiye bilişim ansiklopedisi* [Turkish Encyclopedia of Informatics]. İstanbul, Türkiye: Papatya Yayıncılık.

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Tonta, Y., Bitirim, Y., & Sever, H. (2002). *Türkçe arama motorlarında performans değerlendirme* [Performance evaluation in Turkish search engines]. Ankara, Türkiye: Total Bilişim.

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Kamien R., & Kamien A. (2014). *Music: An appreciation*. New York, NY: McGraw-Hill Education.

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American Psychological Association. (2009). *Publication manual of the American psychological association* (6<sup>th</sup> ed.). Washington, DC: Author.

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**b) English Article**

de Cillia, R., Reisigl, M., & Wodak, R. (1999). The discursive construction of national identity. *Discourse and Society*, 10(2), 149–173. <http://dx.doi.org/10.1177/0957926599010002002>

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Lal, H., Cunningham, A. L., Godeaux, O., Chlibek, R., Diez-Domingo, J., Hwang, S.-J. ... Heineman, T. C. (2015). Efficacy of an adjuvanted herpes zoster subunit vaccine in older adults. *New England Journal of Medicine*, 372, 2087–2096. <http://dx.doi.org/10.1056/NEJMoa1501184>

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Sidani, S. (2003). Enhancing the evaluation of nursing care effectiveness. *Canadian Journal of Nursing Research*, 35(3), 26–38. Retrieved from <http://cjr.mcgrill.ca>

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Turner, S.J. (2010). Website statistics 2.0: Using Google Analytics to measure library website effectiveness. *Technical Services Quarterly*, 27, 261–278. <http://dx.doi.org/10.1080/07317131003765910>

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Smith, J. A. (2010). Citing advance online publication: A review. *Journal of Psychology*. Advance online publication. <http://dx.doi.org/10.1037/a45d7867>

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Yaylali-Yildiz, B. (2014). *University campuses as places of potential publicness: Exploring the political, social and cultural practices in Ege University* (Doctoral dissertation). Retrieved from <http://library.iyte.edu.tr/tr/hizli-erisim/iyte-tez-portali>

**c) Dissertation/Thesis from Web**

Tonta, Y. A. (1992). *An analysis of search failures in online library catalogs* (Doctoral dissertation, University of California, Berkeley). Retrieved from <http://yunus.hacettepe.edu.tr/~tonta/yayinlar/phd/ickapak.html>

**d) Dissertation/Thesis abstracted in Dissertations Abstracts International**

Appelbaum, L. G. (2005). Three studies of human information processing: Texture amplification, motion representation, and figure-ground segregation. *Dissertation Abstracts International: Section B. Sciences and Engineering*, 65(10), 5428.

**e) Symposium Contribution**

Krinsky-McHale, S. J., Zigman, W. B., & Silverman, W. (2012, August). Are neuropsychiatric symptoms markers of prodromal Alzheimer's disease in adults with Down syndrome? In W. B. Zigman (Chair), *Predictors of mild cognitive impairment, dementia, and mortality in adults*

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with Down syndrome. Symposium conducted at the meeting of the American Psychological Association, Orlando, FL.

### **f) Conference Paper Abstract Retrieved Online**

Liu, S. (2005, May). *Defending against business crises with the help of intelligent agent based early warning solutions*. Paper presented at the Seventh International Conference on Enterprise Information Systems, Miami, FL. Abstract retrieved from [http://www.iceis.org/iceis2005/abstracts\\_2005.htm](http://www.iceis.org/iceis2005/abstracts_2005.htm)

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Herculano-Houzel, S., Collins, C. E., Wong, P., Kaas, J. H., & Lent, R. (2008). The basic nonuniformity of the cerebral cortex. *Proceedings of the National Academy of Sciences*, *105*, 12593–12598. <http://dx.doi.org/10.1073/pnas.0805417105>

### **h) Proceeding in Book Form**

Parsons, O. A., Pryzwansky, W. B., Weinstein, D. J., & Wiens, A. N. (1995). Taxonomy for psychology. In J. N. Reich, H. Sands, & A. N. Wiens (Eds.), *Education and training beyond the doctoral degree: Proceedings of the American Psychological Association National Conference on Postdoctoral Education and Training in Psychology* (pp. 45–50). Washington, DC: American Psychological Association.

### **i) Paper Presentation**

Nguyen, C. A. (2012, August). *Humor and deception in advertising: When laughter may not be the best medicine*. Paper presented at the meeting of the American Psychological Association, Orlando, FL.

## **Other Sources**

### **a) Newspaper Article**

Browne, R. (2010, March 21). This brainless patient is no dummy. *Sydney Morning Herald*, *45*.

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New drug appears to sharply cut risk of death from heart failure. (1993, July 15). *The Washington Post*, p. A12.

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Bordwell, D. (2013, June 18). David Koepp: Making the world movie-sized [Web log post]. Retrieved from <http://www.davidbordwell.net/blog/page/27/>

### **d) Online Encyclopedia/Dictionary**

Ignition. (1989). In *Oxford English online dictionary* (2<sup>nd</sup> ed.). Retrieved from <http://dictionary.oed.com>

Marcoux, A. (2008). Business ethics. In E. N. Zalta (Ed.). *The Stanford encyclopedia of philosophy*. Retrieved from <http://plato.stanford.edu/entries/ethics-business/>

### **e) Podcast**

Dunning, B. (Producer). (2011, January 12). *inFact: Conspiracy theories* [Video podcast]. Retrieved from <http://itunes.apple.com/>

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Egan, D. (Writer), & Alexander, J. (Director). (2005). Failure to communicate. [Television series episode]. In D. Shore (Executive producer), *House*; New York, NY: Fox Broadcasting.

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Fuchs, G. (2004). Light the menorah. On *Eight nights of Hanukkah* [CD]. Brick, NJ: Kid Kosher.

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