DETERMINATION OF SOCIETY'S PREFERENCES ABOUT OPTIMAL TAXATION: THE CASE OF TURKEY[*]

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Abstract

Optimal taxation is a normative field of study that develops concerning welfare economics. Welfare economics focuses on the desirability of alternative policy proposals by society and aims at maximizing social welfare. From this point of view, optimal taxation also explores the desirability of various tax policies by society. Optimal taxation is defined as the taxation that best reflects the choice of society between efficiency and justice, as well as achieving sufficient income to meet the need for public finance. The relationship of change between efficiency and justice makes it inevitable to establish an acceptable equilibrium between these two criteria. The equilibrium between efficiency and justice should be based on preferences of society. It is accepted that the tax policies applied for the preferences of society about taxation provide the best for social welfare. From this point of view, the aim of the study is to perceive the preferences of the society about taxation. This purpose has tested by a survey conducted in Turkey. The survey method was used in the research, and the data were included in the analysis through the Statistical Package for the Social Sciences (SPSS) package program. Correlation and regression analysis were performed in this context. As a result of the analysis, it was determined that preference of the society for optimal taxation was based on justice-based tax policies. Therefore, tax policies, which premise justice in taxation and aim to reduce inequality in income distribution, are considered as optimal.

Keywords: Optimal Taxation, Efficiency, Justice, Correlation and Regression Analysis

JEL Code: H21, D63, C83

1. Introduction

Welfare economics is a branch of science that develops policy recommendations within the normative framework and focuses on what should be the appropriate policy recommendations for social welfare. In this context, the aim of welfare economics is expressed as maximizing social welfare. Welfare economics, which takes into account the social welfare maximization as main starting point, emphasizes that policy proposals should serve justice and efficiency in resource allocation. In other words, welfare economics implies that the level of social welfare will be determined by the criteria of efficiency and justice. Here, the efficiency in resource allocation refers to pareto efficiency. Pareto efficiency refers to the situation in which an individual's welfare cannot be improved without worsening the welfare of an individual in an economy (Little, 1957: 84). Justice in resource allocation refers to justice in the allocation that is shaped by the distributor justice. Justice in allocation is concerned with whether the factors and the distribution as a result of factors is fair.

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There is an absolute substitution relationship between efficiency and justice, which are determinants of social welfare. This substitution is one of the basic dilemmas of welfare economics and therefore seeks an equilibrium between efficiency and justice. It is accepted that the equilibrium between efficiency and justice should be shaped in line with the preferences of the society. Optimal taxation, based on these views of the welfare economics, focuses on the effects of efficiency and justice criteria of taxation. In this context, it is investigated how a taxation can be made that can equilibrium the efficiency and justice and sensitive to the preferences of the society. As a matter of fact, tax policies designed in accordance with the preferences of the society have a great importance in terms of increasing tax compliance by reducing the resistance of individuals against tax. Therefore, the aim of the study is to determine the preferences of society for optimal taxation. In research model, it was tried to show whether the society wants to be based on efficiency based taxation or justice based taxation. A survey was applied to determine the preference of society for taxation in Turkey.

2. Explanations on Optimal Taxation

The seeking for optimal taxation in the context of welfare economics focuses on how appropriate taxation should be for social welfare. In this context, it is being investigated how a taxation that guarantees sufficient income for the public financing needs, minimizes the loss of efficiency and ensures a fair distribution of tax burden (Evans, 2012: 369). The trade off in efficiency and justice prevents that the taxes are serving both efficiency and justice at the same time. For this reason, it is tried to establish an acceptable equilibrium between efficiency and justice by society in the seek for optimal taxation (Hillman, 2009: 667). Optimal taxation, therefore, is defined as a taxation at a certain level of income, which best reflects the preference of society between justice and efficiency and maximizes social welfare (Stiglitz, 1994: 583).

In this definition of optimal taxation, two main objectives are confidential. These are "taxation to meet the need for public funding" and "taxation to ensure an acceptable balance between efficiency and justice". The second aim is divided into two sub-goals as "ensuring efficiency" and "establishing justice". Which of these sub-goals is more preferable is shaped according to the preferences of society. For these purposes, the criteria for optimal taxation can be explained as follows.

Taxation for financial purposes refers to the acquisition of tax income at a level sufficient for public expenditure (Howard, 2001: 157).The state needs public funding to perform its functions. The most important resource in public finance is taxes. In this direction, the main purpose of taxes is to provide financing of public expenditures. This situation, which expresses the main duty of the tax, is not subject to much discussion in the seek for optimal taxation since it is defined in the budgets of the political process every year.

Efficiency-based taxation stresses that in an economy, taxes should be designed in such a way that the allocation of resources is distributed in Pareto activity conditions(Bohm, 1987: 83). The tax perceived as a cost element changes the relative price structure of goods and services. Thus, the pre-tax and after-tax price is decomposed, and accordingly the decisions and behaviors of the economic units change. These deflecting effects caused by taxation, disrupt resource allocation and cause loss of efficiency (Ebdon, 2005: 243). In this respect, optimal taxation tries to minimize this loss of income caused by tax. Studies on optimal taxation have generally focused on the loss of efficiency of taxes and developed recommendations for reducing it.

Justice-based taxation aims at obtaining a tax that takes into account the ability to pay of individuals and enables to reduce inequalities in income distribution (Musgrave & Musgrave, 1989: 218). Some segments of society are interested in the fair distribution of income or wealth, but remain insensitive to ensure efficiency in the economy (Bohm, 1987: 91). In such cases, justice-based taxation can give the best results in terms of welfare of society. Therefore, in addition to efficiency, justice is also considered in search for optimal taxation.

3. Methodology of Research

In the context of optimal taxation, studies are made to ensure efficiency and justice in taxation. While taxes serving the efficiency concessions from justice, taxes serving justice concessions from efficiency. In this case, it is desirable to create a tax structure that best reflects to the preferences of society between efficiency and justice with optimal taxation. The main research problem of the study is determined from this point. Within the scope of the study, an answer to question of "What criterion does the society prefer to implement optimal taxation?" is seeked and the methodology of the research is shaped by this main problem.

The model of the study is composed of four dimensions which are shaped by the theoretical literature. These are "taxation for financial purposes", "efficiency-based taxation", "justice-based taxation" and "optimal taxation". The research hypotheses to be tested depending on the model of the research are determined as follows:

H_1: *Taxation for financial purposes is effective on optimal taxation.*

H_2: *Efficiency-based taxation is effective on optimal taxation.*

H_3: *Justice-based taxation is effective on optimal taxation.*

The population of the research is constitute from real person income tax payers living in Turkey. Since it is not possible to reach the entire population due to time and cost constraint, the population is limited to the regions in Level 2 by the Classification of Statistical Region Units (NUTS). In this context, the research was conducted on the basis of real person income taxpayers in the provinces of NUTS Level 2. While sampling is done on the basis of provinces, percentage distribution of population and taxpayers are taken as basis. Based on the relevant population, the number of 1200 samples was reached. Within the scope of the research, survey method which is one of the quantitative research techniques was used to reach the relevant sampling.

The data obtained by the survey method were analyzed by using SPSS 23 package program. For the scale used in the research, firstly, reliability analysis was applied to see to what extent the questions in the scale were consistent with each other and to what extent the scale (s) used reflect the related questions (Kayış, 2010: 403). On the other hand, exploratory factor analysis was performed to reduce the number of variables to less (Altunışık vd., 2012: 266). Correlation analysis was used to determine the relationship and power between the factors obtained and the regression analysis was used to determine the effect and direction between the factors (Sungur, 2010: 115; Altunışık vd., 2012: 233).

4. Conclusion

Within the scope of this research, which was conducted to determine the choice of the society between efficiency and justice in Turkey, internal consistency analysis was used to determine the reliability of the scales. As a result of internal consistency analysis, the scale was found to be reliable and consistent. Then, with the exploratory factor analysis, it was determined that the variables were collected under the dimensions and that the scale was suitable for factor analysis. According to the correlation analysis for determining the relationship between factors, a negative relationship was found between taxation for financial purposes and optimal taxation, but a positive relationship was found between efficiency-based taxation and justice-based taxation and optimal taxation.

In order to test hypotheses, a regression model has been established in which the optimal taxation is considered as an dependent variable, taxation for financial purposes, efficiency-based taxation and justice-based taxation are considered as independent variables. Based on this model, it was concluded that the participants mostly demanded justice-based taxation. However, it was concluded that a taxation for financial purposes would adversely affect the optimal taxation. On the other hand, efficiency-based taxation was found to have no statistically significant effect on optimal taxationBased on these results, hypotheses H_1 and H_3 were accepted and H_2 hypothesis was rejected. As a result, Turkish society thinks that a taxation that is appropriate to social welfare should be mostly justice-based and that the tax policies directed towards this would yield the best social results. Proceeding from these results, the tax policies applied in Turkey are to be designed and implemented suitable for justice-based taxation.

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