

# INSTITUTIONS SOCIETY & ECONOMIC DEVELOPMENT



**Editors**

**M. Mustafa Erdoğan, Adam Sofronijević & Sevda Akar**

**IJOPEC**  
**PUBLICATION**  
London Istanbul

# **INSTITUTIONS, SOCIETY, AND ECONOMIC DEVELOPMENT**

Edited By

**M. Mustafa Erdoğan**

*Marmara University, İstanbul/Turkey*

**Adam Sofronijević**

*University of Belgrade, Belgrade/Serbia*

**Sevda Akar**

*Bandırma Onyedli Eylül University, Balıkesir/Turkey*

**Dr. M. Mustafa Erdoğan** is a professor of economics at Marmara University, where he is the head of Financial Economics. He received his MA and PhD in development economics from Manchester University. He is associate editor of International Journal of Applied Behavioral Economics and International Journal of Productivity Management and Assessment Technologies, international advisory board member of International Journal of Sustainable Economics Management, and editorial board member of Turkish Studies Journal. He has published articles on a wide range of issues; a book on social budget, and co-edited several books on economic development, public finance, and green development. His major research areas are international political economy, sustainable development, renewable energies, global commons, behavioral public finance, developmental states, industrial policy, technological capability building, and financial crises. E-mail: [mustafaerdogdu@marmara.edu.tr](mailto:mustafaerdogdu@marmara.edu.tr)

**Dr. Adam Sofronijević** is Deputy Director of University library Belgrade, Serbia. He holds a PhD in library and information science from University of Belgrade, a MSc in management and a MSc in library and information science and a BSc in ICT and a BSc in management and is certified with over 40 Coursera, Udacity and MITx online certificates. He has rich experience as a board member of University library Belgrade, "Milutin Bojic" library in Belgrade and DART Europe board member. Adam has published internationally over 60 peer reviewed articles and book chapters and has been presenting at more than 30 international scientific conferences in 12 European countries. He is a member of LIBER annual conference program committee since 2012. E-mail: [sofronijevic@unilib.rs](mailto:sofronijevic@unilib.rs)

**Dr. Sevda Mutlu Akar** is Assistant Professor of the Department of Public Finance at Bandırma Onyedi Eylül University, Faculty of Economics and Administrative Sciences in Turkey since 2016. She earned her PhD degree in public finance at the Marmara University, Department of Public Finance, Institute of Social Sciences (Turkey). Her PhD dissertation titled as "The Impact of Natural Disasters on Public Finance: Turkish Case (in Turkish, 2009-2013)". Her teaching and research are in the area of public economics, public finance and budgeting. She has also worked on health expenditures, public expenditures and revenues, taxation, sustainable development, green growth, renewable energy technologies, government budget and time series analysis. E-mail: [sevdamutluakar@gmail.com](mailto:sevdamutluakar@gmail.com)



**IJOPEC Publication**

International Journal of Politics & Economics  
London, United Kingdom  
3 Bassingbourn, House Sutton Dwellings  
Upper Street, London N1 1UB

**[www.ijopoc.co.uk](http://www.ijopoc.co.uk)**

E-Mail: [info@ijopoc.co.uk](mailto:info@ijopoc.co.uk)  
Phone: (+44) 73 875 2361 (UK)  
(+90) 262 303 1567 (Turkey)

**Institutions, Society, & Economic Development**

First Edition, November 2016  
IJOPEC Publication No: 21

**ISBN: 978-0-9932118-6-7**

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronically without author's permission. No responsibility is accepted for the accuracy of information contained in the text, illustrations or advertisements. The opinions expressed in these chapters are not necessarily those of the editors or publisher.

A catalogue record for this book is available from Nielsen Book Data and Google Book Data Available.

Printed in Turkey.

*Kayhan Printing Co Ltd.*

*Merkez Efendi Mh.*

*Fazıl Paşa Cd. No: 8/2*

*Zeytinburnu / İstanbul, Turkey*

*Phone: (+90) 212 576 0136*

*Composer:*

*IJOPEC Art Design*

*London, UK*

*[info@ijopoc.co.uk](mailto:info@ijopoc.co.uk)*

## CONTENTS

List of Contributors.....	5
<b>Introduction: Institutions, Society, &amp; Economic Development.....</b>	<b>7-9</b>
<i>M. Mustafa Erdoğan, Adam Sofronijević, &amp; Sevdâ Akar</i>	
1. Are the Institutions Critical? Evidence from Asian Countries.....	11-21
<i>İsmet Göçer, Sedat Alataş</i>	
2. Which Rules? Geography Integration or Institutions: The Causes of Rising Income Differences .....	23-32
<i>Sedat Alataş, İsmet Göçer</i>	
3. Kalkınma Yoluşunda Devlet Karşısında Dünya Sistemi.....	33-41
<i>İzzettin Önder, Aynur Uçkaç</i>	
4. Chinese State Capacity During the Reform Period .....	43-53
<i>M. Nergis Ataçay</i>	
5. Economic Regulation: Regulatory Bodies & Turkish Practice.....	55-59
<i>Ömer Faruk Batırel</i>	
6. The Design of Fiscal Policy and the Human Development Approach .....	61-66
<i>Aysel Arıkboğa</i>	
7. Eğitim ve Ekonomik Kalkınma: Türkiye'nin Pisa Skorları Çerçevesinde Bir İncelemesi.....	67-75
<i>Aynur Uçkaç</i>	
8. Social Expenditures in Turkey Compare to European Union Countries: An Evaluation .....	77-88
<i>Sevdâ Akar, M. Mustafa Erdoğan</i>	
9. Türkiyede Sosyal Harcamaların Gelişimi ve Seçilmiş Ülkelerle Karşılaştırmalı Analizi .....	89-100
<i>Müge Yetkin Ataer, Gözde Nalbant Efe</i>	
10. Küresel Rekabet Endeksinde Türkiye'nin Yeri ve Rekabet Gücünü Artırmada Politika Önerileri.....	101-115
<i>Kaan Yiğenoğlu</i>	



## LIST OF CONTRIBUTORS

This is a list of those who contributed to this volume.

**Dr. Sevdâ Mutlu Akar** is Assistant Professor of the Department of Public Finance at Bandırma Onyedi Eylül University, Faculty of Economics and Administrative Sciences in Turkey since 2016. She earned her PhD degree in public finance at the Marmara University, Department of Public Finance, Institute of Social Sciences (Turkey). Her PhD dissertation titled as “The Impact of Natural Disasters on Public Finance: Turkish Case (in Turkish, 2009-2013)”. Her teaching and research are in the area of public economics, public finance and budgeting. She has also worked on health expenditures, public expenditures and revenues, taxation, sustainable development, green growth, renewable energy technologies, government budget and time series analysis. E-mail: [sevdamutluakar@gmail.com](mailto:sevdamutluakar@gmail.com)

**Sedat Alataş** is a PhD student in Economics. He studied economics and completed his Bachelor’s degree at Anadolu University in Turkey. After his graduation, from 2012 to 2014, he studied economics and completed his Master’s degree at Adnan Menderes University by conducting an empirical analysis of the impact of institutions on economic development. Since September 2012, he has been working as a research assistant. Currently, he works on the following topics: factor substitution at the macroeconomic level, convergence and parameter heterogeneity. His main fields of research are: economic growth and development, convergence, parameter heterogeneity, macroeconomics, applied econometrics and factor substitution at the macroeconomic level. Email: [sedat.alatas@adu.edu.tr](mailto:sedat.alatas@adu.edu.tr)

**Dr. Aysel Arıkboğa** is Assistant Professor at the Department of Public Finance at Faculty of Economics, Istanbul University. She teaches on public finance and fiscal policy, economic and human development. Her research interests are focused on the impacts of the financialisation process on fiscal policy, and the role of the state in the development process. E-mail: [aysela@istanbul.edu.tr](mailto:aysela@istanbul.edu.tr)

**Dr. M. Nergis Ataçay** received her PhD degree from the Department of Political Science and Public Administration at METU in 2014, after receiving her MS degree from the same department and bachelor degree from the Department of Economics at Bilkent University. She worked as a public servant in two different public institutions in Ankara for thirteen years, whereas she has been looking for an academic position for two years. She has mainly focused on political economy of China and its reform process in not only her PhD dissertation, but also in her following publications. In this regard, she has also concentrated on the theories of state, especially when analyzing the process of Chinese state-owned enterprise reform. E-mail: [nergisatacay@hotmail.com](mailto:nergisatacay@hotmail.com)

**Müge Yetkin Ataer** is a Research Assistant at Marmara University, Faculty of Economics. Previously, she was a Research Assistant at Istanbul Medeniyet University, Faculty of Political Sciences. She earned her master’s degree in public finance at Marmara University and is still a doctoral student in the same department. Her research areas are economics of education, externalities, public-private partnership in energy sector, public social expenditures, public health care policies, tax systems and tax revenues. E-mail: [muge.yetkin@marmara.edu.tr](mailto:muge.yetkin@marmara.edu.tr)

**Dr. Ömer Faruk Batirel** is Professor of Public Finance. Born in Gaziantep at 1944 Batirel graduated from İstanbul Academy of Economics & Administrative Sciences (currently Marmara University) in 1967. He joined the faculty staff in 1970 and received all degrees (Ph.D., associate & full professorship) in the field of Public Finance at the same institution. He made post-doctoral studies at University of York, U.K. (1973-1974) He served as Dean and President of Marmara University, member of Higher Education Council and after retirement in 2007 became a faculty member of İstanbul Commerce University. Since then he teaches public finance and tax law courses. E-mail: [obatirel@ticaret.edu.tr](mailto:obatirel@ticaret.edu.tr)

**Gözde Nalbant Efe** is a Research Assistant at Marmara University, Faculty of Economics. Previously, she was a Research Assistant at Istanbul Medeniyet University, Faculty of Political Sciences. She earned her master’s degree in public finance at Marmara University and is still a doctoral student in the same department. Her research areas are public water services, public social expenditures, public healthcare policies, externalities, tax systems and tax revenues. E-mail: [gozde.nalbant@marmara.edu.tr](mailto:gozde.nalbant@marmara.edu.tr)

**Dr. M. Mustafa Erdoğan** is a professor of economics at Marmara University, where he is the head of Financial Economics. He received his MA and PhD in development economics from Manchester University. He is associate

editor of International Journal of Applied Behavioral Economics and International Journal of Productivity Management and Assessment Technologies, international advisory board member of International Journal of Sustainable Economics Management, and editorial board member of Turkish Studies Journal. He has published articles on a wide range of issues; a book on social budget, and co-edited several books on economic development, public finance, and green development. His major research areas are international political economy, sustainable development, renewable energies, global commons, behavioral public finance, developmental states, industrial policy, technological capability building, and financial crises. E-mail: [mustafaerdogdu@marmara.edu.tr](mailto:mustafaerdogdu@marmara.edu.tr)

**Dr. İsmet Göçer** is Assoc. Professor in Economics at Adnan Menderes University in Turkey since 2014. He holds Master degree in Mathematics from Adnan Menderes University. After graduation, from 2006 to 2014, he worked as a lecturer. His research interests include: macroeconomics and econometrics. He has published a large number of international and national scientific papers on the subject of macroeconomics and economic growth. He also worked extensively on time series and panel data econometrics and published an econometric book in 2015. Email: [igocer@adu.edu.tr](mailto:igocer@adu.edu.tr)

**Dr. İzzettin Önder** was born in 1940 and completed his undergraduate and finally graduated from Istanbul University, Department of Economics in 1967. He became professor of economics in 1979 and lectured at Istanbul University until 2007 when he retired at the age of 67. He has also taught at Boğaziçi University since 1976. Currently, he is lecturing at both Boğaziçi and Mimar Sinan Universities. He did post-doctoral studies at York University, United Kingdom, in 1967-68 academic term, and was invited as visiting researcher to Seijo University, Japan, in 1975-76 academic term. He has published books and made contributions in his area of interest. He has also articles published in Turkish and English in academic periodicals at home and abroad. E-mail: [izzettinonder@gmail.com](mailto:izzettinonder@gmail.com)

**Dr. Adam Sofronijević** is Deputy Director of University library Belgrade, Serbia. He holds a PhD in library and information science from University of Belgrade, a MSc in management and a MSc in library and information science and a BSc in ICT and a BSc in management and is certified with over 40 Coursera, Udacity and MITx online certificates. He has rich experience as a board member of University library Belgrade, "Milutin Bojic" library in Belgrade and DART Europe board member. Adam has published internationally over 60 peer reviewed articles and book chapters and has been presenting at more than 30 international scientific conferences in 12 European countries. He is a member of LIBER annual conference program committee since 2012. E-mail: [sofronijevic@unilib.rs](mailto:sofronijevic@unilib.rs)

**Dr. Aynur Uçkaç** is Assistant Professor at Adnan Menderes University. She graduated from Istanbul University, Department of Economics in 1999. She concentrated in education economics and the problem of building up social capital to facilitate economic development. She got her master's and doctorate degrees at Istanbul University as the result of her research and studies on education policies as the main social capital in the process of economic development. After she got her doctorate degree she spent six months in England for further research. Her research area covers Public Economics in general. Education and developmental issues are her special interest areas. E-mail: [auckac@adu.edu.tr](mailto:auckac@adu.edu.tr)

**Kaan Yiğenoğlu** is a Research Assistant of Economics at Yüzüncü Yıl University. He also works as an Assistant in the Department of Economic Policy at Marmara University in Istanbul. He earned his undergraduate's degree in economics at Anadolu University. He earned his master's degree in economic policy at Marmara University. He continues doctorate programme at Marmara University. His research is in the area of economic policy. He has also worked public economics, poverty, income distribution and international political economy. E-mail: [yigenoglu2@hotmail.com](mailto:yigenoglu2@hotmail.com)

# Introduction: Institutions, Society, & Economic Development

International Conference of Political Economy (ICOPEC) aiming to identify and analyze state of affairs relevant to our age was organized for the first time with the theme "International Political Economy: Adam Smith Today" in 2009. Following the success of the conference IJOPEC Publication that aims at searching economic and political alternatives became the main supporter of ICOPEC conference by publishing selected papers of the conference in 2010. Consequently, ICOPEC conferences became conference series and the main theme of the 7<sup>th</sup> conference held in 2016 was defined as "State, Economic Policy, Taxation and Development". IJOPEC Publication has undertaken to publish the papers, presented at this conference in English and Turkish, as five e-books. *Institutions, Society & Economic Development* is the second volume in this five e-books series. The purpose of the volume is to provide an easy to understand introduction about the interaction between institutions and society in terms of economic development.

The main premise of this volume is that economic development and well-being of nations are beyond the simple measures represented by the national accounts. It is multidimensional in terms of both indicators and determinants. Economic development and the success of economic policy designed to accomplish developmental aims can be seen as a product of political interactions between citizens and rulers, and social interactions among the member of society in broad terms. As structures or mechanisms of social order, institutions govern the behavior of a set of individuals within a given community. In the words of North (1990: 4), "Institutions are the rules of the game in a society, [...] the humanly devised constraints that shape human interaction. [...] They structure incentives in human exchange, whether political, social or economic".

As Acemoglu and Robinson (2008: v) indicate, the economic institutions we have that shape directly our world derive from political institutions and the distribution of political power in society. North (2003) suggests that "[I]nstitutions exist to reduce uncertainty in the world. In a world without institutions we would not know how to deal with each other. Institutions are the incentive systems that structure human interaction. They can make predictable our dealings with each other every day in all kinds of forms and shapes. They thereby not only reduce uncertainty in the world but allow us to get on with everyday business and solve problems effectively."

There is wide-ranging evidence that institutions matter a great deal in determining the level of economic development of a country since they determine the volume of interactions available, the benefits from economic exchange and the form which they can take. Institutions conducive to economic development reduce the costs of economic activity. They lower transaction costs by providing common legal frameworks (e.g. contracts and contract enforcement, commercial norms and rules), and they encourage trust by providing policing and justice systems for the adherence to common laws and regulations. Cross-country analyses use indicators such as degree of protection of property rights, the rule of law, and civic liberties and find that they are strongly correlated to economic performance.

This volume covers diverse topics related to opportunities and challenges for economic development. Chapters provide a thought-provoking overview of academic thinking about the role of institutions in economic development. Some of the chapters are of interest to researchers working in the relatively new area of institutional change and governance. There is an emphasis on the importance of the institutional context, drawing on examples mainly from Asian and European countries. The authors use clear formalism. The approach in the book makes the chapters easy to follow not only to academics but also to government officials, development agencies, practitioners, and undergraduates whose only prior exposure to economics is at the introductory level.

The first chapter has been written by *İsmet Göçer* and *Sedat Alataş*. They analyze the relationship between institutions and income in a sample of 14 Asian countries over the period 1995-2015. The results of the study indicate that in



contrast to conventional empirical results, the impact of property rights on income is negative in Central Asian Turkic Republics. Hence, it is concluded that well-functioning property rights may not always be sufficient to increase income per capita in Central Asian Turkic Republics, while it promotes income per capita in South and East Asian countries.

In the second chapter, *Sedat Alataş* and *İsmet Göçer* examine the perspective impact of geography, integration, and institutions on income over the period 2005-2011 based on the average cross section data. Methodologically, they utilize two estimation techniques: Ordinary Least Squares (OLS) and Two Stages Least Squares (TSLS). According to the OLS estimations, the countries with stronger institutions, more open economies and more distant from the equator are likely to have higher levels of income. On the other hand, in contrast to OLS estimates, TSLS estimates show the importance of integration, rather than institutions, in explaining income differences. More specifically, when integration variable is added, geography and institutions appear in wrong sign or do not have additional power in explaining income.

In the third chapter, *İzzettin Önder* and *Aynur Uçkaç* evaluate the theories of development and then the specific case of Turkey is presented to display the relative role of the government against the world dominated by countries with greater economic power. The study assumes that such a general view may reflect not only how the issue of underdevelopment is perceived by developed countries but also the specific nature of remedies suggested to such countries according to their perspectives and interests.

In the fourth chapter, *M. Nergis Ataçay* assesses the China's economic performance with two approaches. The state-centered approach which asserts that the state is the most important actor and it is totally autonomous focuses on the impact of reforms on the capacity of the Chinese state. Two opposing assertions have emerged within the approach. Some of the authors state that the capacity of the Chinese state has increased through its effective bureaucratic apparatus during the reform period, while the others strongly argue that reforms have weakened the Chinese state. According to the study, the relation between the Chinese state and transforming economic and social structures cannot be ignored when China's reform experience is taken into consideration, because this relation has an impact on the reforms and their consequences, while it has also been shaped by the reforms.

In the fifth chapter, *Ömer Faruk Batırel* focuses on the Turkish experience of economic regulation since the 1980s. In theory, the most prominent and effective regulatory instrument to correct imperfection in markets is disclosure. Contrary to conventional wisdom, Turkish regulation is control-oriented. In Turkey, despite introducing regulatory boards in energy, telecommunication, and banking, sectors are still characterized by monopolistic competition structure and the regulation purpose which is to avoid information asymmetries has not been achieved yet.

In the sixth chapter, *Aysel Arıkboğa* deals with the alteration in fiscal policy design and to discuss the coherency of these changes with the human development approach. The effects of fiscal policies on the human development process are generally analyzed in terms of the public expenditures. According to the study, the progressivity of the tax structure would be an effective tool. Just the opposite, however, the Turkish tax structure exhibits a regressive character. Moreover, indirect taxes have long been favored in Turkey and effective tax rates remained low. International tax competition, on the other hand, reduced effective tax rates.

In the seventh chapter, *Aynur Uçkaç* emphasizes the importance of human capital. The only explanatory difference between the developed and developing countries is the high qualified human capital. That both human development indicators and Programme for International Student Assessment (PISA) degrees are discouraging elements for Turkey. According to the results of the study, Turkey should give more attention to human capital issues primarily for the purpose of economic and social development. However, the training schedule is required to improve the quality of education and development.

In the eight chapter, *Sevda Akar* and *M. Mustafa Erdoğan* examine the social expenditures, which are a large part of public expenditures, have significant effects on social life and the society. The study investigates the public and social expenditures in Turkey and European Union (EU) countries to identify the trend of future expenditure pressures during 2006-2014 periods. These expenditures in Turkey have benchmarked against the EU countries focusing on expenditure levels, composition, and status in 2008 financial crisis and its aftermath. The policy difference shows that EU countries pay more attention to social equity. In order to provide the maximum degree of benefit from social expenditures; Turkey should take the more effective pension measures and should create the fairer income tax.

In the ninth chapter, *Müge Yetkin Ataer* and *Gözde Nalbant Efe* demonstrate the general level of public social expenditures in Turkey and trend of this expenditure in recent years are examined and comparatively analyzed with

developed and developing countries. For the 2006-2013 period, the share of countries' public social expenditures in GDP and total public expenditures are determined by using Classification of the Functions of Government (COFOG) and utilizing IMF Government Finance Statistics Database. The result of the study shows that the share of total public expenditure of the total social spending in Turkey has almost continuously increased. When Turkey's status compared to developing countries, it is seen that the average of social expenditures more than 5%. But Turkey's average is behind 4% of developed countries.

In the tenth chapter, *Kaan Yiğenoğlu* argues that the feasibility of various policies, including technology and industry to increase the international competitiveness of Turkey. In the study, it has been scanned of global competitiveness index which is published by World Economic Forum. According to the Global Competitiveness Report which is released by World Economic Forum, Turkey was ranked 51 in 2015. According to the results of the report, the most powerful component is the market size in Turkey. The weakest component, on the other hand, is the efficiency of the labor market.

*November 2016*

*M. Mustafa Erdoğan*  
*Adam Sofronijević*  
*Sevdal Akar*

#### **References**

Acemoglu, D., & Robinson, J. (2008), "The Role of Institutions in Growth and Development", Commission on Growth and Development Working Paper No. 10, 1-34. Retrieved October 25, 2016 from

North, D. C. (1990), *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.

North, D. C. (2003), "The Role of Institutions in Economic Development: Gunnar Myrdal Lecture", United Nations Publications, New York: Obstfeld, M. & Taylor.

# INSTITUTIONS, SOCIETY & ECONOMIC DEVELOPMENT

International Conference of Political Economy (ICOPEC) aiming to identify and analyze state of affairs relevant to our age was organized for the first time with the theme "International Political Economy: Adam Smith Today" in 2009. Following the success of the conference IJOPEC Publication that aims at searching economic and political alternatives became the main supporter of ICOPEC conference by publishing selected papers of the conference in 2010. Consequently, ICOPEC conferences became conference series and the main theme of the 7th conference held in 2016 was defined as "State, Economic Policy, Taxation and Development". IJOPEC Publication has undertaken to publish the papers, presented at this conference in English and Turkish, as five e-books. Institutions, Society & Economic Development is the second volume in this five e-books series. The purpose of the volume is to provide an easy to understand introduction about the interaction between institutions and society in terms of economic development.

**IJOPEC  
PUBLICATION**  
London Istanbul

ISBN 978-0-9932118-6-7



9 780993 211867



UNIVERSITY OF  
WESTMINSTER

