

**Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics**



Master's Thesis

Fiscal Federalism in Turkey

Umut Tuna Oral

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Umut tuna Oral

Economics and Management

Thesis title

Fiscal federalism in Turkey

Objectives of thesis

The aim of the thesis is to examine the development and current situation of fiscal federalism in Turkey. In this context, the objectives of the thesis are as follows:

- Examining the concept of financial federation conceptually and taking a look at its applications in different countries,
- To examine the historical development of fiscal federalism in Turkey and its changes over time,
- To examine the current state of the roles and responsibilities of central and local governments in Turkey in the formulation and implementation of fiscal policy,
- To develop suggestions for Turkey's fiscal federation practices by comparing the best fiscal federalism practices in the world with the fiscal federation practice in Turkey.

Methodology

In accordance with the purpose of the study, the thesis consists of three main parts.

In the first part of the thesis, a comprehensive literature review including the concepts of federalism, fiscal federalism and theories of the fiscal federalism will be included. In this section, income, expenditures, borrowings and their intergovernmental transfers, which are considered to be important to the evaluation of fiscal federalism, will be examined, as well as the first and second generation theories of fiscal federalism and the political and economic effects of fiscal federalism.

The second part of the thesis consists of the practical part. In the Practical Part, the development and current situation of Turkey's fiscal federalism will be examined. In this section, the financial performance of local government units in Turkey, the historical changes in these data, the reasons for these changes, the financial and political reasons that affect these data will be examined.

The third part of the thesis consists of the results and discussion part. In this section, the results obtained for Turkey will be compared with the data of some countries in terms of fiscal federalism, and the results obtained from other studies in the literature will be included.

The data to be evaluated in the thesis will be obtained from various official sources including the Turkish Statistical Institute, the Ministry of Finance, the World Bank and the International Monetary Fund. The

dataset will cover key fiscal decentralization indicators such as income and expenditure allocations, intergovernmental transfers and local debt, as well as socio-economic factors such as GDP, population and poverty levels.



The proposed extent of the thesis

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Keywords

Fiscal Federalism, Turkey, Government, Decentralization

Recommended information sources

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The Diploma Thesis Supervisor

Ing. Jiří Čermák, Ph.D.

Supervising department

Department of Economics

Electronic approval: 4. 9. 2023

prof. Ing. Lukáš Čechura, Ph.D.

Head of department

Electronic approval: 3. 11. 2023

doc. Ing. Tomáš Šubrt, Ph.D.

Dean

Prague on 26. 03. 2024

Declaration

I declare that I have worked on my master's thesis titled " Fiscal federalism in Turkey by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 27.03.2024

Umut Tuna Oral

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Fiscal federalism in Turkey

Abstract

Local governments are considered one of the cornerstones of public administration, and their inclusion within the national administration requires them to work in harmony with the central government. While local governments are providing these services, it is important to have the decision-making authority and the capacity to implement these decisions. This ensures the smooth execution of the duties and powers delegated by the central government to local governments. In this thesis, the level of Turkey's fiscal federalism is examined. It is seen that structural and functional regulations have been made in local governments in Turkey since the 1980s, and localization efforts have aimed to create a more effective and fair public administration. Since 2003, many legal regulations have been made to increase financial decentralization, especially within the framework of the European Union harmonization process. From the measurement results made in this thesis covering the years 2006-2022, it was seen that there was an increase in all fiscal decentralization criteria from 2006 to 2018. However, after the constitutional amendment in 2018, it was observed that there was a weakening in fiscal decentralization and a decrease in these indicators.

Keywords: Fiscal Federalism, Turkey, Local Government, Public

Fiskální federalismus v Turecku

Abstrakt

Místní samosprávy jsou považovány za jednu z rohových kamenů veřejné správy, a jejich začlenění do národní správy vyžaduje, aby spolupracovaly v souladu s centrální vládou. Zatímco místní samosprávy poskytují tyto služby, je důležité mít rozhodovací pravomoc a schopnost tyto rozhodnutí provádět. To zajišťuje plynulé plnění úkolů a pravomocí delegovaných centrální vládou místním samosprávám. V této práci je zkoumán stupeň fiskální federalismu v Turecku. Je vidět, že od 80. let minulého století byly v tureckých místních samosprávách provedeny strukturální a funkční úpravy a snahy o lokalizaci směřovaly k vytvoření účinnější a spravedlivější veřejné správy. Od roku 2003 bylo přijato mnoho právních předpisů k zvýšení finanční decentralizace, zejména v rámci harmonizačního procesu s Evropskou unií. Z výsledků měření provedených v této práci, které pokrývají období 2006–2022, bylo zjištěno, že došlo ke zvýšení všech kritérií fiskální decentralizace od roku 2006 do roku 2018. Nicméně po ústavní úpravě v roce 2018 bylo pozorováno oslabení fiskální decentralizace a pokles těchto ukazatelů.

Klíčová slova: Fiskální Federalismus, Turecko, Místní Samospráva, Veřejnost.

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1 Introduction

Federalism is one of the important governing models that has been discussed a lot lately. Although federalism was mainly dealt with in the political and administrative dimensions at the beginning, it has recently started to be examined mainly in the financial dimension. Although fiscal federalism has been one of the subjects of public economy that has been studied since the 1940s, it has started to attract more attention, especially in the 1980s with the economic and political effects of globalization. In this direction, in many countries, the traditional understanding of public administration has been replaced by this new understanding of public administration. The concept of fiscal federalism, which draws attention, especially within the borders of the United States, has emerged as an important issue since the 1990s, not only in federal governments but also in the transfer of public responsibilities and functions to different levels of government, even in states that have been traditionally centralized for a long time (Ahmad, 2006).

Many countries now give regional governments more responsibilities and the power to spend more and collect taxes to fulfill these responsibilities. Fiscal federalism is the selection and distribution of financial decision-making power in multi-level government units in a federally administered country (Oates, 2005a). According to Oates, fiscal federalism is a sub-field of public finance and focuses on the financial roles of different government units, their relations with each other, and the tools they use (Oates, 2005a).

Fiscal federalism, which is used more frequently in federalist countries and forms the financial part of administrative decentralization, falls within the scope of public economy and finance theory (Shah, 1998). One of the fundamental advantages of fiscal federalism is that it is better for lower government units to decide which types of local public goods are to be provided and in what quantity. Local government units can be more responsible, accountable, and transparent than the central government when evaluating local preferences (Cukur, 2020). Local governments have much more information about the preferences and needs of citizens in their regions than the central government. In this context, the basis of fiscal federalism is to give local governments the authority to make spending decisions independently and to determine their income accordingly (Guzel & Yılmaz, 2018).

Most developing countries see fiscal federalism as a way to overcome problems such as economic instability, insufficient growth, and ineffective administration style in recent years (Boadway & Shah, 2009a). It can be said that accountability has increased with fiscal

federalism; elected officials are more responsible in the context of taxes paid, and citizens are more sensitive to the services they receive in return for the taxes they pay (Sagbas et al., 2005). As a result of the benefits of transferring financial responsibilities to local governments, efficiency in service delivery will increase. In addition, there will be a decrease in information and transaction costs in presenting the relevant public services and goods. As a result of these benefits, it is stated that fiscal federalism can potentially increase the performance of the public sector (Oates, 2005a).

As in other developing countries, significant service and expenditure responsibilities have been transferred to local government units with the arrangements made in local government laws in Turkey in recent years. In the arrangements, the principle of subsidiarity was taken as a basis for transferring services to local government units.

This thesis examines the development and current situation of fiscal federalism in Turkey. In this context, a literature review will be included in the first part of the thesis to present the conceptual framework of federalism and fiscal federalism. After the literature review, the methodology and objectives of the thesis will be explained, and fiscal federalism in Turkey will be discussed in detail.

2 Objectives and Methodology

2.1 Objectives

The aim of the thesis is to examine the development and current situation of fiscal federalism in Turkey. In this context, the objectives of the thesis are as follows:

- Examining the concept of financial federation conceptually,
- To examine the historical development of fiscal federalism in Turkey and its changes over time,
- To examine the current state of the roles and responsibilities of central and local governments in Turkey in the formulation and implementation of fiscal policy,
- To develop suggestions for Turkey's fiscal federation practices.

2.2 Methodology

In accordance with the purpose of the study, the thesis consists of three main parts.

In the first chapter of the thesis, a comprehensive literature review including the concepts of federalism, fiscal federalism and theories of the fiscal federalism will be included. In this section, income, expenditures, borrowings and their intergovernmental transfers, which are considered to be important to the evaluation of fiscal federalism, will be examined, as well as the first- and second-generation theories of fiscal federalism and the political and economic effects of fiscal federalism.

The second chapter of the thesis consists of the practical part. In the Practical Part, the development and current situation of Turkey's fiscal federalism will be examined. In this section, the financial performance of local government units in Turkey, the historical changes in these data, the reasons for these changes, and the financial and political reasons that affect these data will be examined.

The third chapter of the thesis consists of the results and discussion part. In this chapter, the results obtained for Turkey and the results obtained from other studies in the literature will be included.

When the theoretical and empirical literature is examined, although there are different fiscal decentralization formulas, some generally accepted formulas are widely used. In this study, these formulas, which are generally accepted in the literature, will be used. In

the analysis, first seven fiscal decentralization formulas will be introduced, and then their course will be examined based on the real values of the variables used in these formulas for Turkey. Finally, the result table will be given with the calculation of each formula and the course of each financial decentralization criterion result over the years will be examined.

The first formula used in the analysis shows the share of local expenditures in total public expenditures and is referred to as "Formula A":

$$A (\text{fiscal federalism}) = \frac{GL}{GT}$$

Here GL refers to total local expenditures and GT refers to total public expenditures. Formula A is important in understanding where the spending power of local governments is compared to the spending power of the public sector. In other words, formula A measures the size of local governments within the public sector in the context of expenditures in an economy. Yao and Li (2006) stated that one of the most common tools used in calculating fiscal decentralization is measurements made on expenditures (Yao & Li, 2006). This measurement technique is one of the traditional measurement techniques and was used by Oates (1972) in calculating fiscal decentralization. In general, the ratio of local expenditures to total public expenditures is also called "expenditure share" (Oates, 1972).

The second formula used in the analysis shows the share of local revenues in total public revenues and is referred to as "Formula B":

$$B (\text{fiscal federalism}) = \frac{RL}{RT}$$

Here RL refers to total local revenues and RT refers to total public revenues. Formula B is important in understanding where the revenue power of local governments is compared to the revenue power of the public sector. In other words, formula B measures the size of local governments within the public sector in the context of revenues in an economy.

Many researchers working in the field of public finance, such as Yao and Li (2006), Ebel and Yilmaz (2002), state that the correct result in calculating fiscal decentralization will be obtained through revenues (Ebel & Yilmaz, 2002; Yao & Li, 2006).

The third formula used in the analysis shows the share of local expenditures in GDP and is referred to as "Formula C":

$$C (\text{fiscal federalism}) = \frac{GL}{GDP}$$

Here GL is total local expenditure and GDP is Gross Domestic Product. Formula C is important in understanding where the spending power of local governments lies in the size of the national economy. A national economy includes firms, households, non-governmental organizations, and the public sector. As a part of the public sector, the place of local governments in the national economy is measured through Formula C in the context of expenditures.

The fourth formula used in the analysis shows the share of local revenues in GDP and is referred to as "Formula D":

$$D (\text{fiscal federalism}) = \frac{RL}{GDP}$$

Here RL refers to total local revenues and GDP refers to Gross Domestic Product. Formula D is important in understanding where the revenue power of local governments is in terms of the size of the national economy.

The fifth formula used in the analysis shows the share of local governments' own revenues in total public expenditures and is called "Formula E":

$$E (\text{fiscal federalism}) = \frac{RLS}{GT}$$

Here, RLS refers to the own revenues of local governments and GT refers to total public expenditures. Formula E is important in understanding where the own revenue generation power of local governments lies with the spending power of the public sector. In other words, formula E measures the size of local governments within the public sector in the context of their own revenues in an economy.

The sixth formula used in the analysis shows the share of local governments' own revenues in total local revenues and is called "Formula F":

$$F (\text{fiscal federalism}) = \frac{RLS}{RL}$$

Here, RLS refers to the own revenues of local governments and RL refers to total local revenues.

Formula F is important in understanding where local governments' own revenue generation power, especially tax revenue, is in terms of their total local revenue generation power. In other words, Formula F shows the independence of local governments in generating revenue. The inverse of this ratio $[1-RLS/RL]$ shows the dependence of local government revenues on the central government. Ebel and Yılmaz (2002) stated that local governments should have tax authority over their own resources and emphasized that, based on fiscal decentralization, local governments should have local taxes to increase their own revenues and that this is important in terms of measuring fiscal decentralization (Ebel & Yılmaz, 2002).

The seventh formula used in the analysis shows real local expenditures per capita and is called the "G Formula":

$$G (\text{fiscal federalism}) = \frac{GL}{N * CPI}$$

Here, GL is total local expenditures; N stands for population, and CPI stands for Consumer Price Index. Formula G is important to see the value of the spending power of local governments according to the change in the population they are responsible for serving. Analyzing local expenditures on a per capita basis as a ratio to the population will allow us to see a more realistic course of local expenditures. However, since the local expenditure value in the formula represents a nominal value, a real change process cannot be observed due to the inflation phenomenon. For this reason, the local expenditure value per capita is adjusted for inflation by proportioning it to the consumer price index, and the real local expenditure value per capita is obtained. Akman (2015) emphasized the importance of determining how much public resources are spent on citizens in strengthening local governments and measuring financial decentralization (Akman, 2015).

The data to be evaluated in the thesis will be obtained from various official sources, including the Turkish Statistical Institute, the Ministry of Finance, the World Bank, and the International Monetary Fund. The dataset will cover key fiscal decentralization indicators such as income and expenditure allocations, intergovernmental transfers, and local debt, as well as socio-economic factors such as GDP, population, and poverty levels. Since the classification of the public sector and budget types have changed in Turkey since 2006, it is very difficult to ensure that the variables used in the calculation of fiscal decentralization are

compatible with pre-2006 data. In addition, data sources, especially regarding local administrations, start from 2006. Therefore, the analysis covers the period 2006 to 2022.

3 Literature Review

In this section, theories, and academic studies on the concepts of federalism and fiscal federalism will be discussed in detail. In this context, this section will be organized under two headings. In the first part, the concept of federalism and in the second part, the concept of fiscal federalism will be discussed.

3.1 Federalism

Federalism is a system of government in which power is divided between a central authority and a region or state. It is a complex and evolving concept that has been the subject of extensive scholarly research and analysis. In Australia, federalism has been conceptualized as pragmatic federalism, which goes beyond a one-dimensional notion of ad hoc inter-governmental arrangements. It encompasses a range of institutional designs and postures observed across different policy fields and over time (Smullen, 2014). Insights from philosophical pragmatism have influenced the study of federalism in Australia and have focused on both formal and informal features of inter-governmental arrangements (Smullen, 2014). In the international context, the study of federalism has gained increased interest over the years. There has been a growth in the number of journals and academic organizations dedicated to the study of federalism, indicating the contemporary relevance and significance of the topic (Watts, 2001).

The International Association of Centers for Federal Studies (IACFS) has expanded to include 23 centers and institutes in 15 countries on five continents (Watts, 2002). In Canada, federalism studies have evolved over time, with a shift from a center-focused approach to a more decentralized perspective. While federalism continues to be an important part of the scholarly literature, there has been a decline in the study of traditional areas of federalism. Additionally, there is a lack of representation from scholars in Quebec and a relatively small number of studies by female scholars. However, recent research suggests that federalism is often considered a contextual or explanatory factor rather than the principal object of study (Fafard & Rocher, 2009). The study of federalism is a dynamic field encompassing various dimensions and perspectives. It involves examining the interplay between central and regional, exploring institutional designs, and the impact of federal policies on different policy fields. The literature on federalism provides valuable insights into the complexities and challenges of governing in a federal system.

3.1.1 The Concept of Federalism

The origin of the concepts of “federation”, “federalism”, “federal” is based on the Latin word “foedus” (Ostrom, 1991). Daniel Elazar, one of the important academics who are experts in federalism, used a biological analogy when describing federalism. According to Elazar, federalism is a family that includes many subspecies (Elazar, 1987). Elazar wrote a book on federalism called "Exploring Federalism." Elazar wrote in his book that the concept of the federal originated in the Bible and emerged from the Judeo-Christian tradition. Elazar also states that the origin of the concept of federal comes from the Latin word “foedus”, which means contract. However, Elazar also refers to the fact that the concept of federalism has turned into a political concept over time (Moore & Elazar, 1998).

It is seen that the first emergence of the federal idea, which binds the political communities by agreement or contract, dates back to the ancient Greek city-states. At that time, city-states came together to protect their countries against any military threat from outside (Smith, 2014). According to Friedrich, federalism is a form of political organization specific to communities with locally diverse values, interests, beliefs, and traditions through establishing common ideas and traditions and the more effective implementation of shared values and benefits through joint efforts (Friedrich, 1999).

Federalism does not have a precise definition today. However, there is no doubt that Edward A. Freeman's study is at the forefront of the classical studies that should be consulted while analyzing federalism. Freeman defines federalism briefly as the creation of a state in relation to other powers, but the fact that many states have a say in internal administration. According to Freeman, two requirements are necessary to form a federal government in its most perfect form. Each member of the Union should be utterly free in matters that concern it only. In matters concerning the whole of the members, each of the members should be subject to a common power (Freeman, 1893).

Federalism is a form of government in which authority, responsibility, and power are distributed between the central government and smaller regional governments, and the constitution determines this. For a federal system to exist, it is not enough that national and state governments simply coexist. What is important here is that the power of governing is given to the national and state governments by the constitution, and the constitution clearly determines the governing functions of each of them. No administrative unit can interfere with the authority of the other. These powers include the power to collect taxes and the

responsibility to regulate the behavior of individuals with laws. In federalism, it is very important that the administrative authority and power of the central and state governments are guaranteed by the constitution. On the other hand, the relationship between local governments and central governments is not guaranteed by the constitution (American Federalism, 2012).

According to McLaughlin (1918), federalism is a system consisting of a political order in which governments with limited powers in certain geographical regions have separate powers, and this power is distributed among governments (McLaughlin, 1918). Federalism as a system is the division of sovereignty or authority between at least two levels of government formed by the nation and its subunits. Federalism is a concept that embraces both states' rights and national rights. No administrative unit can interfere with the rights of the other. Each unit has an ontological existence (Feeley & Rubin, 2009).

The federal form of government is a multi-level structure in which each administrative unit has a certain degree of independence and responsibility for decision-making. Federalism represents the concept of “gathering together” or “holding together” to take advantage of nations as a component of a geographical region, being big and small (Boadway & Shah, 2009a). In its broadest sense, the federal order refers to a system that includes various autonomous units, starting with the family and extending to local and regional communities and the state.

Twenty-five of the countries in the world are governed by the federal government system, and the population of these countries corresponds to approximately 40% of the world population (Turan, 2017). Today, the awareness of federalism is not older than establishing the American federal system (1787). The major countries following the United States are Switzerland (1848), Canada (1867), Australia (1901), Austria (1920) and Germany (1949). These six countries are the oldest types of federalism in which federalism was established. The federal system in India (1950) immediately followed these six countries. Spain (1978) and Belgium (1993) can also be considered as federations. All these countries are highly developed societies both economically and technologically. Malaysia can be given as an example to developing countries (Smith, 2004). Large federal Latin American countries such as Argentina, Brazil, and Mexico are much poorer countries. Therefore, the meaning of federalism for each country is different from each other. Whether federalism is a good or bad form of government for the country is closely related to how and through which

implement them through their appropriate bodies. This interaction is bidirectional. In other words, citizens in federal states have the right to take decisions directly affecting the administration through elections.

- **Existence of a Body to Resolve Disputes of Authority between Governments:** In federal states, the existence of a judicial body established at the federal level is generally obligatory to resolve conflicts of authority that may arise between governments. The critical point here is that this judicial body or institution is impartial.
- **Parallel Organization of State Organs:** In federal states, governments can create separate organs such as legislative, executive, and judiciary to use their powers determined within the framework of the constitution. In this direction, the federal constitution determines the institutional structure of the federal government, and the laws of the federated governments determine the institutional structure of the federal government.
- **Representation of Federated Units in the Federal Legislature:** In federal states, federated governments are represented in one house of the federal parliament to protect their rights and interests at the national level. In this representation, federated governments, namely states, are meant, not nations
- **Existence of Independent Resources of Revenue for Governments:** For the federal government and federal government units to fulfill the responsibilities distributed by the constitution, each should be given the authority to collect taxes to a certain extent.

Classical theories try to shed light on the nature of the federal state and more on the question of "what is federalism?" They tried to find an answer to the question. After the second half of the 20th century, how federalism was born, its causes and origins began to attract more attention and research. In this direction, three theories regarding the origin of federalism have been put forward. These are sociological, political, and multifactorial theories. According to Livingston (1952), the most important theory regarding the origin of federalism is sociological theory. Federalism not only embraces the diversity of views on any one issue but also embraces the unity of differences around many issues. According to Livingston, the essence of federalism lies not in the institutional or constitutional structure of the state but essentially in the structure of society itself. When a society or nation is mentioned in the federal structure, it is understood that people with different languages,

religions, races, or economic interests are clustered in certain geographical regions but have managed to integrate. If these social differences were dispersed throughout the country, it would be difficult to speak of a federal society. But if this diversity in society creates groups in certain geographic areas, then we can call that society federal. Thus, federalism emerges in societies with federal characteristics. In other words, the federal state is an essential tool used to express and protect the society if it has federal characteristics. As a result, according to Livingston, federalism is a result of the federal society (Livingston, 1952).

Livingston (1952) has classified the principles and institutions, which are the basic tools of the federal system, on which academics focus, as follows (Livingston, 1952):

- The existence of a written constitution,
- Sharing power between two governments,
- The existence of a body that can resolve any power-sharing problem that may arise between administrations while implementing the written constitution,
- Representation of the states in the national assembly,
- Dual citizenship, in other words, citizenship is dependent on federal and federal governments,
- The executive at the national government level has federal qualifications.

In the light of these principles, the “federal state” is a political and constitutional form of government that integrates many different groups under a new state while preserving the distinctive features that makeup them (Livingston, 1952). In fact, most states have emerged as the expression of differences in society, and the federalist system is seen as the most appropriate and effective method to ensure adequate protection of these differences. As a result, this theory, which tries to explain the origin of federalism from a sociological perspective, points out that the federal state is formed as a result of the federal society. If the society is not grouped regionally according to common characteristics such as language, religion, culture, function, and interest, that is, if there is a more homogeneous societal structure, perhaps that country will not need a federalist system of administration.

The second theory of the origin of federalism is political theory. As the name suggests, this theory views federalism as a political issue. According to political theory, politics is not simply a product of economic and social factors. It also has a separate and independent existence from the economic and social system of the society. The main idea of political science is the instinctive passion for power, and since there is political power

sharing in federalism, the political approach is undoubtedly a logical way among the theories investigating the origin of federalism (Uygun, 2007). Federalism, the division of sovereign authority among multiple levels of government, can be seen as a way of stabilizing or making decentralized governance structures credible (Bednar et al., 2010)

The most influential advocate of political theory is the American political scientist, William Riker. In his study titled “Federalism: Origin, Operation, and Significance”, Riker focused on issues such as why federalism changed shape and why it disintegrated or continued. According to Riker, federal states combine their national resources to defend against a common enemy, and while doing this, they provide many benefits such as a common market, monetary union, or transportation system (Feely, 2012).

The final theory of the origin of federalism is the multifactorial theory. This theory considers all the factors that were effective in the emergence of federalism and the establishment of the federal state. The most famous proponents of this theory are RL Watts, Kenneth Wheere, and Karl Deutsch. Authors supporting this theory described the most critical factors in the formation of federalism as "preconditions of federalism."

Watts (2001) studied six countries that transitioned to federalism after World War II. According to Watts, the most distinctive feature that must emerge for the establishment of a federal state is the simultaneous desire to unite under a single government in some respects and to be in a regional government independently for other reasons. The factors that cause these two desires to exist at the same time can be listed as follows: Being politically independent, providing economic benefits, ensuring administrative efficiency, having a more effective and stronger management structure in foreign relations, language, religion, race, and cultural aspects of the citizens of the country (Watts, 2001).

According to the Cooperation Theory, which is the first theory on the functioning of the federal state, federal government plans and finances a significant part of the state activities, and the federated governments are responsible for the execution of these activities (Uygun, 2007). In the collaborative theory of federalism, there is partnership and cooperation between national and state governments. However, in this cooperation, the central government has absolute superiority and power. This theory argues that the states that came under the federalist form of government essentially gave up their independence (Uygun, 2007). Morton Grodzins and Daniel J. Elazar are the most important writers who defended this theory, which became influential in the USA after the 1940s and worldwide in the 1960s.

The second theory is Competition Theory, which was developed in the 1980s and 1990s. The most important reason for this is probably the increased competition between states in the 1980s. The reason for the increased competition can be seen as the reduction of tax rates by the states with high-income tax rates. Competition theory is based on the competition between people and groups in a market economy, which is also experienced between administrative units in the political system (Uygun, 2007).

Classical theory focused on the relations between the federal government and local government. While the cooperation theory is based on the relations between federal, federated, and local governments, the relations between the states are emphasized in the competition theory. The relationship between administrative units in federalism is based on competition, and as proof of this, three items can be easily listed (Kenyon & Kincaid, 1991):

- The rate of spread of a change in legislation or other public policies in any federated administration to other administrative units,
- Population migration elasticity resulting from fiscal and other policy changes.
- Administrative units use price adjustments to attract labor, capital, and technology to their territories.

Most academics think that the competition of regions using their powers plays a vital role in the behavior of states and local governments. This competition creates significant pressure on states and local governments both in terms of reducing taxes and in the field of public service delivery, which will be attractive to people and groups (Kenyon & Kincaid, 1991). The critical reasons for this competition, in other words, the pressure created are to prevent the people, groups, and companies living in the region from leaving the local government unit and to keep the elected officials at the head of the local government units in order to keep their duty, and they are concerned about pleasing the electors (Uygun, 2007).

3.2 Fiscal Federalism

Federalism has been a hotly debated topic, especially recently. Federalism, which has political, administrative, and financial dimensions, is one of the most important government models. At first, the concept of federalism, which was considered more in the political dimension, has now started to be examined and studied intensively in the financial dimension. In the 1980s, along with the economic and political effects of globalization, the

traditional understanding of public administration began to give way to this new understanding of public administration. The concept of fiscal federalism, which attracted attention especially within the borders of the United States in the 1980s and 1990s, later began to be used as a political campaign in many countries, and various countries even established national commissions to investigate this issue or create a form of fiscal federalism.

3.2.1 The Concept of Fiscal Federalism

Fiscal federalism is one of the subjects of public economics that has been studied since the 1940s. However, in the 1980s, with globalization's economic and political effects, many countries started giving more responsibilities to subnational governments and more authority to fulfill these responsibilities. The conversion of Belgium, one of the developed countries, to federalism in 1993 and the fact that Portugal, Spain, and Italy are on a similar path can be given as examples of this situation. On the other hand, similar efforts are also seen in countries with emerging economies, such as Belarus, Bolivia, and Mexico.

The term 'federalism' in fiscal federalism creates confusion for many scholars. Because the term is often used for both 'federal' and 'unitary' political systems. In fact, it is assumed that fiscal federalism can also occur in a country with an informal 'unitary' form of government, with tax and spending powers distributed among different vertical levels of government. According to the theory, if the distribution of this power in unitary states is done 'informally' as in the federal system, it can cause the governments of these countries to function like the federal system. China can be cited as an example (Brueckner, 2006)

It should be reminded again that although many authors use the concepts of fiscal federalism, fiscal decentralization, or fiscal federalism in the same sense for all countries, regardless of whether the countries are governed in a federal or unitary way since the concept of fiscal federalism originates from the federal government system, this theory is generally applied to the federal government. It is more appropriate to associate it with countries. Because the government levels, structures and functions of a unitary governed country differ from a federalist country, it is quite difficult to fully implement fiscal federalism (Brueckner, 2006)

Since the late 1990s, the transfer of public responsibilities and functions to different levels of government has emerged as an essential issue, not only in federal governments but also in states that have been traditionally centralized for a long period. There are many

reasons why fiscal federalism has gained acceptance in the world, especially recently. The most important of these reasons is that, since local government units know local preferences and needs better than the federal government, it increases the efficiency of the public sector and paves the way for the country to reach a higher growth rate and achieve a better macroeconomic performance (Weingast, 2009). In order to examine financial federalism in more detail, it must first be explained conceptually.

Theoretically, the issues that fiscal federalism helps us understand are as follows (Brueckner, 2006):

- Factors that determine the optimum degree of financial decentralization,
- Principles emphasizing the distribution of functions at different levels of vertical management and the importance of their resources,
- To determine the most appropriate transfer plans between the administrations in a way that will achieve the objectives of "equality" and "efficiency".

Unitary and federal governments offer different tools for fiscal federalism. Primary sub-governments in unitary governed countries are not constitutionally empowered to decide on administrative tasks and services; instead, the same government has multiple lower-level administrative units (province, county).

On the other hand, federal governments constitutionally protect these primary local governments (state). Thus, in federal systems, states have a stronger ability to make independent decisions. In federal government systems, states are always constitutionally protected, while lower-level local governments (province, municipality, town) may not be constitutionally protected. In practice, the extent and nature of the decision-making power of lower-level local governments has varied widely from country to country in both federal and unitary states and has changed over time. It should also be noted that the fiscal decentralization of some federal countries, such as Venezuela, may still be much weaker than that of some countries, such as Columbia, that are seemingly unitary (Salami, 2011).

Fiscal federalism is essentially the selection and distribution of financial decision-making power in multi-level government units (Delgado et al., 2022). Fiscal federalism theory focuses on the division of public sector functions and fiscal relations between layers of government. In the context of the evolution of the public sector, scholars are actively studying the structure of multi-level government, broadening and enriching our understanding at the conceptual level. This situation is called "fiscal federalism" in the economics literature (Oates, 2005a).

Fiscal federalism, which is used more frequently in federalist countries and forms the financial part of administrative decentralization, falls within the scope of public economy and finance theory. According to Oates, fiscal federalism is a subfield of public finance and examines the vertical structure of the public sector. In other words, fiscal federalism focuses on the financial roles of different units of government, their relations with each other, and the tools they use (Oates, 2005).

Fiscal federalism defines the fiscal relations between middle and lower levels of government. In other words, it is a view of the transfer of financial authority from the national government to regional and local government units. In this respect, fiscal federalism encompasses two interrelated fields. The first is the issue of the division of decision-making authority on public revenues and expenditures between different levels of government (national, regional, and local). The second is the level of independence (both in total and in detail) that regional and local governments have when deciding on the assessment of local taxes and the determination of expenditures (Chygryn et al., 2018). In this context, rational regulation of financial relations between the central government and local governments is imperative for various reasons. These are: protection of public order, prevention of waste of resources, prevention of deviations in resources, especially migration, obtaining income from the same source, eliminating the imbalance between regions, and protecting local governments against central governments (Sagbas et al., 2005).

One of the fundamental tenets of fiscal federalism is that it is better for local governments, rather than the central government, to decide which types of local public goods are to be provided and in what quantity. When evaluating local preferences, local government units can be more responsible, accountable, and transparent than the central government. In addition, local governments have much more information about the preferences and needs of the citizens living in their regions than the central government (Ahmad, 2006).

Fiscal federalism is the part of federalism that is at the forefront of revenue collection and expenditure sides. The basis of this concept is to give local governments the authority to make spending decisions independently and to determine and increase their revenues accordingly. In fiscal federalism, the degree of congruence between tax collection and the provision of public goods is crucial (Shah, 1998). Historically, fiscal federalism could only be considered tax coordination and competition. However, recently, in addition to these, granting and transfer programs, as well as multifunctional responsibilities to different

administrative units, fall within the scope of fiscal federalism. Public goods and externalities theory has been facilitating recent research and analysis because of the realization that most public goods and externalities affect smaller regions rather than the entire country. (Oates, 2005a).

Fiscal federalism and its practice often involve the mutual distribution of resources and income among regions, economic sectors, and households. The main impact of fiscal federalism on economic performance is based on these interactions and how the interrelationship of local governments, states, and the national economy impacts growth and the distribution of income opportunities (Ebel & Yilmaz, 2002).

Fiscal responsibility is the cornerstone of fiscal federalism. Local governments must have both sufficient total revenues (local revenues and transfers from the center) and sufficient authority in making spending decisions in order to perform the fiscal federalism function effectively. Accordingly, fiscal federalism can take place in 5 ways (Litvack and Seddon, 2000):

- Ability to self-finance while providing public services or to cover costs by collecting service fees from users,
- Co-financing or co-production (ensuring the participation of users during the provision of public services and providing monetary or labor contribution to the infrastructure works carried out),
- Increasing local revenues through real estate sales, taxes, and indirect taxes,
- Transfers made to local governments for general or private use from general tax revenues collected by the central government,
- Giving local governments the authority to borrow and mobilizing the resources of local or national government to be loan collateral.

3.2.2 Economic and Political Effects of Fiscal Federalism

The economic and political implications of fiscal federalism are a widely debated in economics and political science. When financial federalism experiences are examined, it is seen that its success is related to factors such as country size, institutional capacity, income generation capacity of local governments, transparency, and accountability. If these factors are provided in a country, fiscal federalism appears to have many benefits, both economically and politically. On the other hand, there are some disadvantages brought by this application. The highlights of these benefits are briefly listed below.

- **Accountability:** it happens in two ways. The first is accountability at the local government level, and the second is accountability between local and national governments. It depends on the degree of the local government unit, which is at the local level. The lower the local government is, the closer it is to the public, and thus the chain of accountability of the government to the citizens is shortened (Brueckner, 2006). The policies followed in fiscal federalism and their results are followed more closely by citizens locally. In the context of responsibilities and authorities given to local governments, accountability and transparency in service delivery are increasing. This ensures that local governments are more reliable (Ewetan et al., 2020).
- **Local proximity to the public and information;** local governments have easier access to accurate information about local preferences and conditions. Because states and local governments are closer to people, they can be more sensitive to the preferences of their voters and find new and better ways to provide these services (Oates, 2005). Thus, uniform service delivery is prevented, and the preferences of the citizens are met more effectively (Neyapti, 2005). Individuals generally gather in the same regions according to their preferences, and thus they are in fact preferentially classified in a homogeneous way. Therefore, decentralization also solves the problem of bringing different preferences together. In this direction, efficiency is ensured in the provision of public goods and services (Uygun, 2007). The main claim on this subject is that the performance of the public sector can be increased as a result of taking local differences in culture, environment, preferences, needs, economic and social institutions into account. Thus, better matching can be made between the provision of public goods and services and local demands. Because local government units can reach local preference and need information cheaper, faster and more accurately than the national government (Rotulo et al., 2020).
- **Horizontal and vertical competition between governments;** Vertical competition between governments is called competition between administrative units with different powers, characteristics and powers. In other words, it is the competition between the central government and local governments. Vertical competition occurs because of the differentiation between the policies implemented by the federal government to ensure the

balanced distribution of scarce resources in the country and the policies that local governments try to attract these scarce resources to their regions (Neyapti, 2005). Horizontal competition is the competition between local public producer units. In other words, it is the competition between administrations with similar powers. Competition between federated states or municipalities is this type of competition.

- The division and distribution of authority between state levels; It is accepted that it prevents arbitrary and unruly behavior and provides protection against a form of government based on corruption. This is particularly evident in countries with a federal form of government. Thus, the monopoly of the federal government in the management of financial matters is prevented (Kelkar, 2019).
- The effect of reducing transaction costs; The price of acquiring the goods for the realization of economic change is not the only parameter, it also has a cost in acquiring that information and this is called transaction cost. These are the costs incurred to maintain the economic system, such as the costs of accessing information, contracting and consulting, and most of them cannot be measured (Burret et al., 2022).

In case of incomplete information and lack of control, high transaction costs and opportunism can occur. Because if people have any information advantage, they try to turn it in their favor with the motive of self-interest. Since the central government has less information than the lower-level administrations, the emergence of these negativities is more likely in countries governed by a unitary system (Guzel & Yılmaz, 2018b).

The more veto power over central policies, the stronger fiscal federalism, and the more local governments, the less likely the central government's policies to be radical. Because the veto right or power of local governments over these policies increases in direct proportion with fiscal decentralization. In other words, in countries where fiscal federalism is strongly applied, central governments have difficulty in making radical decisions and putting them into practice because they face the resistance of lower government units (Egeli & Diril, 2012).

3.2.3 Disadvantages of Fiscal Federalism

In local economies, the scale of production reduces costs in companies that grow. The reasons for the decrease in costs can be listed as division of labor and specialization, technological advantages, management advantages, and monetary advantages. Therefore, since the central government is large, it appeals to large communities in producing public goods, with advantages like economies of scale. Local government units have higher costs than the central government in information and coordination, administration, division of labor, and monetary areas. Likewise, in the collection of some taxes, the central government has economies of scale in direct proportion to the size of the country and can collect taxes at less cost (Egeli & Diril, 2012).

Lack of coordination can occur between local units that act independently and have different powers and duties. If the necessary coordination for the policies determined by the federal state cannot be achieved throughout the country, the reforms may not reach the determined targets (Cukur, 2020). In other words, there may be a lack of coordination between local governments, as well as between federal and local government units. In addition, the lack of coordination between national and local governments can also cause the government to become unwieldy.

The participation of citizens in the political decision-making process at the local level is beneficial for democratization, but the transfer of the administration of local government units to a group that acts in accordance with its own interests in accordance with the "bronze law of the oligarchy" may reduce the benefits to be obtained from financial decentralization (Salami, 2011). According to the "bronze law of the oligarchy" put forward by the German sociologist Michels in the early 1900s, oligarchy (the control of a society or organization by the top administrators) is a feature arising from the bureaucracy itself or the functioning of very large organizations within themselves. In other words, the dominance of the elected people over the electorate stems from the system's own functioning. The group that provides the communication and holds the decision-control mechanism will see itself as more competent, more distinguished, and unforgivable after a while. According to Michels, democracy and bureaucracy cannot stand together, and bureaucracy gives birth to oligarchy due to its organizational functioning (Feeley & Rubin, 2009).

The level of institutional development of local governments remains at a much lower level when compared to government at the national level. However, lower salaries of local

government units compared to central governments is another factor that increases corruption. National governments can create a more transparent and accountable public administration. Therefore, if transparency or accountability is lacking locally and interests are strong in such a place, financial federalism will cause more stratification and corruption in the social sector under these conditions (Güzel & Yılmaz, 2018a).

Lack of organization and poor quality of public services, the quality of education, health and infrastructure services decreases as financial decentralization increases. The most important reason for this is the lack of organization due to the increased organization costs due to the large number of local governments and the decrease in the quality of the public service. In addition, the central government has a more equipped, professional, and experienced workforce than local units (Çukur, 2020a).

3.2.4 Measuring Fiscal Federalism

Although fiscal federalism has been a debated topic in many countries, especially recently, there has not been a clear consensus on its measurement in both political science and public economics. In fiscal federalism, although public expenditures and taxes can be measured with numerical methods, the public financial management system at the local level cannot be measured because it has qualitative rather than quantitative features (Karagoz, 2014)

The concepts of fiscal federalism or fiscal decentralization are used almost synonymously with fiscal autonomy, and this is part of many institutional arrangements that involve devolving revenues and spending responsibilities between levels of government units. Therefore, the most general way to evaluate financial autonomy is how much resources and responsibilities are under the control of local governments. Here, it is also important to monitor the tax and expenditure levels of local governments and their changes over time (Brueckner, 2006).

Regarding the statistical analysis of the effect of fiscal decentralization on economic factors, the important point is the numerical measurement of fiscal federalism (fiscal decentralization). In order to measure the level of fiscal decentralization, the degree of authority distribution of local governments or the level of their authority must be known. However, it is quite difficult to measure the authority allocation between the governments numerically (Kelkar, 2019). However, the level of fiscal federalism is also evaluated in terms of the weight of local governments in the general government (Ebel and Yılmaz, 2002).

Some of the main methods used by scientists to measure fiscal federalism are listed below:

- Local revenues / Total revenues,
- Local revenues / GDP,
- Local tax revenues / Total tax revenues,
- Local tax revenues / Total local revenues,
- Local tax revenues / Total revenues,
- Local expenditures / GDP,
- Local expenditures / Total expenditures,
- The relationship between the change in local expenditures and local revenues in a given period.

As can be seen, there is no consensus on the measurement of fiscal federalism. Therefore, there is no consistency in terms of the results obtained according to these measurements. For example, in a measurement made in terms of local tax revenues, a country seems to be more autonomous and better implements fiscal federalism. In a country where local governments are more autonomous in terms of expenditures, it can be observed that local governments are more dependent on the center in terms of local revenues.

In researches conducted in this area, “Government Finance Statistics” (GFS) data announced by the IMF or some financial decentralization criteria announced by the World Bank are also used. However, since these data are not self-consistent and insufficient, different results have emerged in previous academic studies and researches on the effect of fiscal federalism on economic factors. The political and administrative situations of the countries, as well as the unique administrative characteristics of local governments, are important elements in the measurement of fiscal federalism in a country. In addition, many data should be evaluated for the measurement of fiscal federalism, such as the rate of urbanization, population size or rate, and the number of local governments.

It is also important to develop some criteria for the measurement of fiscal federalism. For example, although a country's financial system has local characteristics, the expenditures of local government units may have a share in GDP, or a country's financial system does not show local characteristics. It can be concluded that the decentralization level is higher than the formulations (Karagoz, 2014).

Local governments need to have autonomy in terms of management over the basic public service sectors. Important rules and regulations involving the spending autonomy of local government units can be summarized as follows (Güzel & Yılmaz, 2018b):

- **Budgetary Autonomy:** The level of independence of local government units when preparing their own budgets,
- **Policy Autonomy:** The autonomy of local governments to determine their policies while doing a job or providing public service,
- **Input Autonomy:** Levels of local government's ability to independently determine and control service inputs (for example, their ability to determine wages, retirement, and terms of contracts with employees in local governments),
- **Output Autonomy:** Freedom of local administrations to determine the quantity and quality of the services they provide,
- **Supervision and Evaluation:** The level of local governments' ability to evaluate and control the services they provide to citizens.

When the rating made in terms of the above-mentioned criteria in local governments is compared with the expenditure shares of local units, it has been concluded that the expenditure shares generally show the degree of fiscal federalism higher than it is (Bach et al., 2009). In other words, the high share of expenditures of local governments sometimes does not mean that these governments have a strong spending power. From many perspectives, it can be seen that local governments are not an autonomous and independent policy maker, but an administrative unit controlled by the central government.

3.2.5 Theories of Fiscal Federalism

Traditional approaches to fiscal federalism often contain a series of implicit political assumptions that limit its applicability as a positive model. For this reason, the literature divides fiscal federalism approaches into two. The first is the “First Generation Theories of Fiscal Federalism (FGT),” which examines the performance of decentralized systems assuming that they are bona fide social planners. The second approach is “Second Generation Theories of Fiscal Federalism (SGT)”, and SGTs both develop the study of the first generation and study the financial and political incentives faced by subnational units (Chygryn et al., 2018a). SGTs focused mainly on the functioning of financial and political institutions in order to increase these incentives and maintain the functionality of the market.

Therefore, thanks to the important contributions not only from economics but also from political science and other fields, second-generation theories have been moved to an interdisciplinary ground.

3.2.5.1 First-Generation Theories of Fiscal Federalism

First-generation theories of fiscal federalism (FGT) are actually based on the view of public finance, which was shaped based on classical normative economics in the 1950s and 1960s. Oates named the first-generation theories "The Traditional Theory of Fiscal Federalism." According to the traditional view, three economists have played an active role in defining the "structure and functioning of the public sector": Richard Musgrave, Kenneth Arrow, and Paul Samuelson (Oates, 2005). Samuelson wrote two articles (1954 and 1955) on the nature of public goods, and Samuelson was the first to define public goods in the contemporary sense. According to him, public goods are "goods that are consumed together and equally in which the consumption of any individual does not cause a decrease in the consumption of another individual." Musgrave also conducted research on public finance, and he defined public goods as all kinds of goods and services that meet social needs (Güzel & Yılmaz, 2018). Arrow's research on the conceptualization of the roles undertaken by the public and private sectors is an important study for the public sector. The basic element in all these studies is that they attach great importance to the functioning of the state.

Considering the traditional theory, local government units create competition among themselves in the provision of public goods and services they provide, by reaching the need information of the local people at a lower cost than the central government. According to the traditional view, local government units compete with each other to provide more effective and better services, to reduce tax rates left to their own initiative, to create a more effective public sector and to provide fiscal discipline (Egeli & Diril, 2012).

The traditional theory of fiscal federalism provides a general normative framework for allocating functions to different levels of government and which fiscal instruments are appropriate for performing these functions. In general, according to this theory, the main areas of responsibility of the central government should be to ensure macroeconomic stability and the income distribution function (Oates, 1999).

The theory is largely normative. In theory, it is assumed that public decision-makers try to maximize social welfare. Accordingly, macroeconomic matters concerning national matters are left to the authority of the central government. The solution of local problems,

local expenditures and local revenues should be left to the sub-national levels of government, who know the local people better and have more accurate information about the preferences and wishes of the residents. When we look at the economics literature regarding the first-generation theories of fiscal federalism, we see that the studies are “mainly” by Tiebout (1956) and Oates (1972).

3.2.5.2 Second Generation of Fiscal Federation

In the process of change in the public sector, new approaches that examine and research the issue of fiscal decentralization in the light of various views in different fields of the public economy have begun to emerge as of the late 1990s. These new approaches are called “Second Generation Theories” (SGT). Weingast (2014), one of the most important representatives of the second generation, first examined the economies of federal nations and investigated the reasons for their different performance from each other. For example, why some countries have highly developed economies (US and Switzerland) while others have underdeveloped economies (Argentina and Brazil); questioned why some are growing fast (China) while others are growing low (Mexico). In addition, for the last three centuries, the wealthiest countries in the world have been governed by the federal system (USA, UK, and Germany); Large federal Latin American countries such as Argentina, Brazil, and Mexico have become much poorer countries. In the traditional view, the outputs of local public goods are determined in such a way as to maximize the welfare of the constituencies of the regions concerned (benevolence). In this respect, SGTs are investigating what kind of a political structure and operation should be for the state to provide public goods effectively and to protect markets reliably. In this context, according to Weingast (2014), second-generation theories should be seen as complementary to traditional theories (Weingast, 2014).

The "new" literature of fiscal federalism is becoming more and more widespread, both in its sources and its trends. Thanks to the important contributions of not only economics but also many different fields such as political science, second-generation theories have been moved to an interdisciplinary ground. This makes it challenging to explain SGTs in a systematic and easy way. Therefore, it may be more accurate first to consider and then define the sources on which SGTs are based.

SGTs work on political economy issues that deal with the theory of public choice, as well as political processes and the behavior of representatives. Contrary to FGTs, which

assume that public officials' priorities are public interest (benevolent), new generation theories suggest that actors in the political process (both voters and politicians) try to maximize their self-interest functions first in a political environment with behavioral constraints. In other words, authorities do not act only to increase the welfare of their voters (Oates, 2005). FGTs assumed that political actors effectively provided public goods and protected markets. However, according to Qian and Weingast (1997), just as there is no reason for managers to act in favor of company owners according to firm theory, there is no reason for public officials to naturally act in favor of voters (Qian and Weingast, 1997). In other words, politicians or bureaucrats do not always act in the interests of citizens. In this direction, SGTs work on how to effectively present public goods and protect markets in the light of this data, and for this, they emphasize the administrative structure of states or local governments.

Most modern literature in public economics (including recent work on the theory of fiscal federalism) explicitly rejects the first assumption that public proxies are in "benevolent" behavior. More realistically, this new literature claims that public institutions pursue traditional utility maximization for their own purposes. According to Oates (2005), "approximately productive" results can be achieved at the local level without being benevolent. According to the widely used median voter theorem, in electoral competition the results reflect the preference of the median voter. The median voter is in the middle of the preference distribution and does not deviate much from the influential ones. In any case, Oates (2005) argues that if some refinement is made on the first assumption, proxies do not need to be "benevolent" to get reasonably efficient results (Oates, 2005). There is a very large literature on information problems. In an environment where access to information is asymmetrical, some participants may have more information than others on issues such as cost structure or local preferences. Oates emphasize the industrial organization and microeconomic theory that explores this knowledge issue. Local governments have more information than the central government about public services that will maximize the preferences, desires, and benefits of residents in their area (Oates, 2005).

Where there is insufficient information and control, there may be negativities such as transaction costs or opportunism. Because if people have an advantage in acquiring information, they can act in their favor with the motive of self-interest, and they can be the driver of the corruption of society (Karagoz, 2014). In other words, the fact that the parties do not have equal information, especially in public administration with a principal-agent

relationship, constitutes an important obstacle for the managers to be benevolent and for the voters to try to maximize their welfare. Asymmetric information also increases transaction costs. In light of these explanations, we can identify the new literature on fiscal federalism. It is a new field of fiscal federalism that explores the functioning of different political and financial institutions. Fiscal federalism examined here focuses on incentives, as well as the behavior these incentives cause in participants who seek to maximize utility in environments where there is incomplete information and insufficient control (Oates, 2005).

In his study examining second-generation studies, Oates (2008) argues that they develop in two different branches. According to Oates, the “First Column” of the second-generation theories of fiscal federalism focuses on the financial crises caused by the perverse behavior of the country's decentralized government units. The “Second Column” is the “Political Economy of Fiscal Federalism” approach and focuses on the evolution of public sector theory in a more traditional dimension. Both approaches explore incentives shaped by financial and political institutions, but their fundamental concerns differ (Oates, 2008). However, it should not be forgotten that both branches have certain basic elements in common. Both strands consider that public proxies pursue utility maximization for their own purposes and focus on the political and financial environments that create incentives and constraints in which these proxies operate. Again, both focus on the new industrial organization literature, which includes the theory of the new firm. Accordingly, multi-layered governments apply principal-agent models, asymmetric information environment, incomplete control, incomplete contracting, and strategic behavior (Oates, 2008).

The literature on theories of federalism encompasses a wide variety of perspectives and approaches. Oates (2005) discusses the development of a "second-generation theory of fiscal federalism," drawing on several branches of literature, including principal-agent issues, knowledge economics, and theory. contracts and organizational theory.

3.3 Fiscal Federalism in Turkey

In this section, the historical development and current situation of fiscal federalism in Turkey will be examined both from the literature and macroeconomic data.

3.3.1 Historical development of fiscal federalism in Turkey

In order to gain a better understanding of the concept of financial decentralization in Turkey, it is necessary to first examine the constitution, laws, and other legal regulations related to local governance from the past to the present. Local governments can only function as effectively as they are recognized in the constitutional framework and other legal regulations. Hence, it is important for local governance to have a constitutional and legal basis.

When examining the constitutional processes related to local governments, the “*Teşkil-i Vilayet Nizamnamesi*” enacted by the Ottoman Empire in 1864 and 1871 is significant. This regulation was the first to address the provincial organization comprehensively. “*The Teşkil-i Vilayet Nizamnamesi*” introduced both structural and functional regulations in the provincial organization. One of these structural regulations was the General Provincial Assemblies, which form the basis of present-day provincial administrations. Additionally, regulations pertaining to administrative units referred to as “*nahiye*” are included in this regulation. Another functional regulation concerning local governance was related to the employment of public officials in the provinces and regulations regarding the duties, powers, and responsibilities of the provincial organization. In 1876, with the “*Kanun-i Esasi (Constitution)*” alongside, the administration of provinces and local governments was based on the principles of “*Tevsi-i Mezuniyet (Broadened Authority)*” and “*Tefrik-i Vezâif (Division of Duties)*.” The concept of *Tevsi-i Mezuniyet* is a term used in the province's administration, while the division of local public services of central administration to local governments is referred to as *Tefrik-i Vezâif*. In 1877, municipal corporations, for the first time, gained legal personality through the “*Dersaadet*” Municipal Law and Provincial Municipal Law (Cenikli, 2011).

The second constitutional development within Turkish constitutional movements is the 1921 Constitution. Although the 1921 Constitution, consisting of 21 articles, is a framework constitution that does not explicitly mention the concepts of broadened authority and division of duties, it should not be interpreted as negating the principles of broadened

authority and division of duties just because it did not explicitly address them, as it did not abolish the 1876 Constitution. The 1921 Law on Fundamental Organization included provisions related to the duties, powers, responsibilities, administration, and local government councils of local government units such as districts, provinces, and sub-districts. Consequently, the 1921 Law on Fundamental Organization emphasized the autonomy of local governments and embraced the concept of decentralization. It is crucial for local government councils to be present in the constitutional framework even if the assembly cannot convene (Guzel & Yılmaz, 2018).

Following the 1921 Law on Fundamental Organization, the 1924 Constitution came into effect. With the 1924 Constitution, a shift from decentralization to centralization was made, defining local governments within the framework of centralization. Uygun (2015) emphasized that this period, marked by radical reforms, was not a choice but a necessity due to the existing centralist structure (Uygun, 2015)

After the 1924 Constitution, the 1961 Constitution solidified the position of local governments in the constitutional realm. Article 116 of the 1961 Constitution defined local authorities as "public legal entities elected by the people of the province, municipality, or village to meet their common local needs" and provided constitutional protection. The election of mayors by the people in the 1961 Constitution granting local governments the right to choose their own leaders was important for democratic processes. Another significant development was the provision in Article 116 of the 1961 Constitution stating that "control over whether the elected organs of local governments acquire or lose their status as an organ shall be exercised only through the judiciary." The inclusion of this provision in the constitution made local governance even more important. The election of mayors by the people and the provision that elected officials can only lose their status through judicial means were inspired by the libertarian spirit of the constitution (Sezer & Buyukpinar, 2021). Additionally, the 1961 Constitution divided governance into central and local administrations, clearly stating that the formation of local administrations, their ability to form associations among themselves, their duties, powers, finances, policing matters, and their relations with the central administration would be regulated by law. Moreover, the constitution ensured through constitutional protection that local administrations would be provided with revenue sources proportional to their duties by the central administration (Cenikli, 2011).

The 1961 Constitution was interrupted by the 1980 coup and the 1982 Constitution came into effect to reestablish the constitutional order. Although the 1961 Constitution regulated both central and local administrations, it was not as comprehensive as the 1982 Constitution. Nevertheless, traces of the 1961 Constitution can be found in the 1982 Constitution (Karagoz, 2015). The 1982 Constitution, currently in force, is the constitution that has been amended multiple times to adapt to current conditions. Article 127 of the 1982 Constitution regulates provisions related to local administrations and defines provinces, municipalities, and villages as local administrations. Additionally, the concept of administrative supervision, defined as the central organization supervising local organizations, which is described as the central organization overseeing the provincial organization in Turkish constitutions, is also included in the constitutional framework. Despite the presence of local administrations in the 1982 Constitution, there is a considerable amount of legislation specific to local administrations (Cenikli, 2011).

3.3.2 Financial Structure of Local Governments in Turkey

In the 1982 Constitution of Turkey, local administrations are divided into three categories: provincial special administrations, municipalities, and villages. The metropolitan municipality, not mentioned in the constitution, is defined as a local administration regulated by law. Although the metropolitan municipality is not explicitly stated in the constitution, it includes district municipalities, which are mentioned in the constitution. Another local administration not mentioned in the constitution is municipal unions.

In this section of the study, provincial special administrations, and municipalities, which are specified in the constitution, will be discussed. Due to the absence of budgetary provision for villages in Law No. 5018, villages are not discussed in this study. However, we will examine the metropolitan municipality and local administrative unions, which are regulated by law despite not being explicitly mentioned in the constitution.

3.3.2.1 Special Provincial Administration

Among the local administrations and public legal entities specified in the constitution, special provincial administrations are the first to be discussed. Special provincial administrations are one of the public legal entities operating within the scope of local administrations, even though they are not listed under the title of local administrations in the 1982 Constitution (Sagbas et al., 2005). The administrative body of a particular

provincial administration comprises the provincial general assembly, provincial executive committee, and the governor. The powers and authorities of special provincial administrations are derived not from the constitution but from Law No. 5302 on special provincial administrations(Kiziltan & Yereli, 2023a).

The term "special" in the nomenclature of particular provincial administration is used to distinguish it from the provincial general administration, which is the local organization of the central administration. Law No. 5302 on Special provincial administrations were enacted in 2005 to regulate the establishment, organs, administration, duties, powers, responsibilities, and working procedures and principles of special provincial administrations (Neyapti, 2005).

Article 3 of Law No. 5302 defines a special provincial administration as "a public legal entity with administrative and financial autonomy, established to meet the common local needs of the people in the province, constituted by the electorate through elections, and having decision-making bodies, the provincial general assembly, provincial executive committee, and the governor."(Egeli & Diril, 2012)

A significant development concerning special provincial administrations occurred with the enactment of Law No. 6360 in 2012, which established metropolitan municipalities in thirteen provinces and twenty-six districts and made various legal amendments. By 2013, the number of metropolitan municipalities had reached 30, and special provincial administrations in metropolitan areas were abolished. As of 2022, there are 51 Special provincial administrations operating in Turkey (Sezer & Buyukpinar, 2021).

3.3.2.2 Financial Structure of Special Provincial Administration

The responsibility for preparing the budget of the special provincial administration lies with the governor. The budget prepared by the governor is submitted to the Provincial General Assembly, considering the opinion of the Provincial Board. The budget of the special provincial administration presented to the Provincial General Assembly is accepted either as is or with modifications. When examining the financial structure of the SPAs, it is beneficial to analyze the budget revenues and expenditures separately.

Similar to municipalities, special provincial administrations receive a share of general budget revenues. The legislation granting this authority is Law No. 5779, concerning the Allocation of General Budget Tax Revenues to Special Provincial Administrations and

Municipalities. The calculation and allocation of shares are outlined in Article 2 under the heading 'Calculation and Allocation of Shares' in Law No. 5779. In this article:

(1) Shares are allocated to special provincial administrations and municipalities based on the total collection of general budget tax revenues. The share is calculated from the net amount remaining after deducting tax refunds from the total collection of general budget tax revenues.

(2) (Amended: 12/11/2012-6360/25 md.) 1.50% of the total collection of general budget tax revenues is allocated to municipalities outside metropolitan areas, 4.50% to district municipalities in metropolitan areas, and 0.5% to special provincial administrations.

Law No. 5779, concerning the Allocation of General Budget Tax Revenues to Special provincial administrations and Municipalities, elaborates on the allocation principles for special provincial administration shares in Article 4 under the heading 'Allocation Principles for Special provincial administration Shares.' The article specifies that 50% of the special provincial administration share is based on the population of the provinces, 10% on the surface area of the provinces, 10% on the number of villages in the provinces, 15% on the rural population of the provinces, and 15% on the development index of the provinces, and the State-owned bank distributes these proportions.

Apart from the shares received from the general budget, special provincial administrations have their own sources of income. The revenues of the special provincial administration are listed in Article 42 of Law No. 5302 on Special provincial administrations. According to this, the revenues of the special provincial administration include:

- Taxes, fees, duties, and participation shares specified by laws for the special provincial administration.
- Shares allocated from general budget tax revenues.
- Payments made by general and special budgeted administrations.
- Revenues from the lease, sale, and other forms of utilization of movable and immovable properties.
- Fees to be collected according to the tariffs determined by the Provincial General Assembly.
- Revenues from interest and fines.
- Donations.

- Revenues to be generated from all kinds of ventures, partnerships, and activities.
- Other revenues.

It can be stated that the revenues of Special Provincial Administrations are very limited. In 2014, special provincial administrations were abolished in metropolitan cities. As a result of the dissolution of these institutions, almost half of the revenues were significantly reduced. Among the revenues, the most significant share came from donations and private incomes. This situation indicates that Special provincial administrations depend on the center and lack financial autonomy.

Article 43 of Law No. 5302 on Special provincial administrations explain the expenses of the special provincial administration. Accordingly, the expenses of the special provincial administration include:

- Expenses for the acquisition, construction, maintenance, and repair of special provincial administration buildings, facilities, vehicles, and equipment.
- Salaries, wages, allowances, per diems, travel expenses, training expenses related to service, and other expenses paid to the personnel and members of elected bodies of the special provincial administration.
- All kinds of infrastructure, construction, repair, and maintenance expenses.
- Expenses for the follow-up and collection of taxes, fees, duties, participation shares, fees for services, and other revenues.
- Aid to villages or associations established by villages within the principles to be determined by the provincial general assembly.
- Membership dues and shareholdings related expenses concerning companies, organizations, and associations in which the special provincial administration is a member.
- Interest, other payments related to borrowing, and insurance expenses.
- Social services and aids to the poor, needy, orphaned, and disabled individuals.
- Litigation and execution expenses.
- Representation, ceremony, hospitality, and promotion expenses.
- Payments to be made for legal, consultancy, and audit services.

- Joint services with local and international public and private sectors, as well as non-governmental organizations, and other project expenses.
- Expenses incurred for socio-cultural and scientific activities.
- Public opinion polls and research expenses related to special administration services.
- Natural disaster expenses.
- Other expenses incurred for executing duties and services stipulated by law.

It can generally be stated that the revenues of special provincial administrations are higher than the expenses. Therefore, the budgets of special provincial administrations show a surplus.

3.3.3 Municipalities

In the Turkish Constitution, the concept of municipality is mentioned in the section on local administrations, and it is constitutionally guaranteed that they are public legal entities. According to Article 127 of the 1982 Constitution, 'Local administrations are public legal entities that are elected by the voters, as indicated in the law establishing the principles of establishment, to meet the local common needs of the province, municipality, or village inhabitants.' The establishment of local administrations is left to the legislative body. The establishment, organs, administration, duties, powers, and responsibilities of municipalities were regulated by Law No. 5393 on Municipalities, enacted in 2005. This law clearly defines a municipality in Article 3, stating that it is a public legal entity established to meet the local everyday needs of the residents of a locality and has administrative and financial autonomy. A municipality consists of the municipal council, municipal executive committee, and the mayor. The structure of the municipal organs is similar to that of special provincial administrations. Just as the provincial general assembly in special provincial administrations corresponds to the municipal council in municipalities, the provincial executive committee corresponds to the municipal executive committee, and the governor corresponds to the mayor.

The duties and responsibilities of municipalities are clearly regulated in Article 14 of Law No. 5393 on Municipalities. The main duties and responsibilities of municipalities include:

- Providing urban infrastructure such as zoning, water and sewage systems, transportation; geographic and urban information systems; environment and

environmental health; cleanliness and waste management; municipal police, fire brigade, emergency aid, rescue, and ambulance services; urban traffic; cemeteries; afforestation, parks, and green areas; housing; culture and arts, tourism and promotion, youth and sports, student dormitories for middle and higher education (The last paragraph of Article 75 of this Law does not apply to municipalities, special provincial administrations, their affiliated organizations, and the associations they are members of, as well as companies subject to the audit of the Court of Accounts, regarding the construction, maintenance, repair, and furnishing of student dormitories for middle and higher education.); social services and assistance, marriage, and vocational training; promoting the development of the economy and trade by providing services or outsourcing them.

- Constructing and maintaining or having constructed every level of school buildings owned by the State, meeting all kinds of tool, equipment, and material needs; opening and operating all kinds of health-related facilities; constructing, maintaining, and repairing places of worship; protecting cultural and natural assets and historically important places and functions in terms of urban history; conducting maintenance and repair for this purpose, and reconstructing them in a true-to-original manner if preservation is not possible (Amended second sentence: 12/11/2012-6360/17)
- If necessary, providing sports equipment to young people to promote sports, providing in-kind and cash aid to amateur sports clubs and providing necessary support, organizing all kinds of amateur sports events, and granting awards to students, athletes, technical managers, and coaches who have demonstrated outstanding performance or achieved success in domestic and international competitions through a municipal council decision. They can engage in food banking.
- Cash aid to be provided by municipalities shall not exceed one thousandth for metropolitan municipalities and one thousand two hundredths for other municipalities of the amount accruing to the municipalities from the general budget tax revenues for the previous year.
- The priority order in the provision of services is determined, taking into account the financial situation of the municipality and the urgency of the

service. Municipal services are provided to the citizens in the closest and most suitable places and with the most appropriate methods. Methods appropriate to the situation of persons with disabilities, the elderly, the infirm, and low-income individuals are applied in service provision.

- The jurisdiction, responsibility, and authority of the municipality cover the municipal boundaries.
- Municipal services may also be extended to adjacent areas by the decision of the municipal council.

In fulfilling the duties and responsibilities mentioned above, municipalities consider the priority order of the service, the financial situation of the municipalities, and the urgency of the service. Besides the duties and responsibilities, municipalities also retain rights to authorization and privileges beyond their duties and responsibilities."

There are generally three municipal revenues in Turkey. These are the shares allocated to special provincial administrations and municipalities based on the total tax revenue obtained from the general budget, own revenues of municipalities and borrowing. In Turkey, until 1981, municipalities had a system that provided revenue at various rates through various taxes, but after this year, this revenue method was changed with Law No. 2380; The principle of giving a certain share from the general budget tax revenues was introduced (Aydınlı, 2003: 78). Of course, municipalities in Turkey have other revenues other than general budget tax revenues. These revenues are included in Article 59 of Law No. 5393:

- Municipal taxes, duties, fees and participation fees specified by law.
- Share allocated from general budget tax revenues.
- Payments to be made from general and special budget administrations.
- Income obtained from rental, sale and other evaluation of movable and immovable properties.
- Fees for services to be collected according to the tariffs to be determined by the municipal council.
- Interest and penalty income.
- Donations.
- Income to be obtained from all kinds of initiatives, participation and activities.
- Other income.

3.3.4 Metropolitan Municipalities

Along with globalization and new liberal policies, the idea of increasing the efficiency of local governments and conducting international competition through big cities has led to administrative institutionalization by merging municipalities and an increase in the number of types of local governments. Especially since the 1980s, in many developed countries such as France, Germany, and England, small municipalities have been merged to establish a smaller and more effective municipality system (Egeli & Diril, 2012).

In Turkey, just like in other countries, there are cities with populations exceeding millions. Such cities are called metropolitan or metropolitan cities. Cities with such a large population of course need a different municipal organization than other cities. In such cities, it is very difficult to manage local services from a single center. After all, the aim of local administrations is to provide organizations near those who benefit from the service. Therefore, in Turkey, dividing metropolitan cities into parts and managing them is a requirement of the principle of decentralization (Güzel & Yılmaz, 2018). The significant legal regulation concerning metropolitan municipalities in Turkey is the Metropolitan Municipality Law No. 5216. Article 3 of the law defines metropolitan municipalities. According to this, whose borders are provincial civil boundaries and which provides coordination between district municipalities within its borders; It refers to the public legal entity that has administrative and financial autonomy, fulfills the duties and responsibilities given by law, uses the powers, and whose decision-making body is elected by the voters. Bodies of the metropolitan municipality; It includes the metropolitan municipal council, metropolitan municipal council, and metropolitan mayor. District municipality refers to the district municipality within the borders of the metropolitan municipality. Article 4 of the Metropolitan Municipality Law No. 5216 includes the requirement for municipalities to transform into metropolitan municipalities. Accordingly, provincial municipalities of provinces with a total population of more than 750,000 have the opportunity to become metropolitan cities with the law enacted by the legislature.

According to the Metropolitan Municipality Law No. 5216, there are district municipalities within the borders of the metropolitan municipality. In the Turkish local government structure, the duties and powers of the district municipalities within the borders of the metropolitan municipality are not determined by a separate law; It is included in the

metropolitan municipality law. With the law numbered 5216, municipal borders were expanded in Turkey country and the management style based only on the provincial center was abandoned. For this reason, this law is called "compass law". With this law regulation, metropolitan municipality borders were expanded into circles with a certain radius, based on population (Sezer & Buyukpinar, 2021). In previous years in Turkey, governors had authority over the budget control of metropolitan and first-tier municipalities. Later, with the law no. 5216, this authority was abolished, and the metropolitan municipal council's control was brought over the district and first-tier municipalities. Today, the budgets of district and first level municipalities and the metropolitan municipality budgets are presented to the metropolitan municipal council (Kiziltan & Yereli, 2023).

3.3.4.1 Financial Structure of the Metropolitan Municipality

The financial structures of metropolitan municipalities should be examined in terms of income and expenses, as in other local administrations. The income and expenses of metropolitan municipalities appear to be less than those of lower-tier municipalities. The main reason for this situation is not the low income and expenses of metropolitan municipalities, but the numerical superiority of municipalities that are not metropolitan municipalities. Considering that there are 30 metropolitan municipalities in Turkey. Metropolitan municipalities provide services like other local administrations to fulfill local services. Various expenses are incurred while providing these services. According to the Metropolitan Municipality Law No. 5216, the expenses of the metropolitan municipality are as follows;

- Expenses incurred for the supply, maintenance and repair of municipal service buildings and facilities.
- Salaries, wages, allowances, attendance fees, travel allowances, service-related training, and other expenses paid to municipal personnel and members of the municipality's elected bodies.
- Aids and joint project expenses to be provided to district (...) municipalities and affiliated organizations.
- All kinds of infrastructure, construction, repair, and maintenance expenses.
- Expenses to be incurred for the performance of municipal police and fire services and other duties and services.

- Expenses for tracking and collecting taxes, duties, fees, participation fees, fees for services, and other income.
- Partnership share and membership fee expenses related to the companies, organizations, and unions in which the municipality participated.
- Expenses related to the establishment, protection, and maintenance of cemeteries.
- Interest, other payments related to borrowing, and insurance expenses.
- Social services and aid are to be provided to low-income, poor, needy, orphans, and disabled people.
- Litigation and enforcement expenses.
- Representation, ceremony, entertainment, and promotion expenses.
- Attorney, consultancy, and audit payments
- Joint services and other project expenses made together with local and foreign public and private institutions and non-governmental organizations are limited to the duties assigned to the metropolitan municipality in this law.
- Expenses incurred for sports, social, cultural, and scientific events.
- Expenses for public opinion polls and research regarding metropolitan municipality services.
- Other expenses incurred for the performance of duties and services assigned by law.

When the budget expenses of metropolitan municipalities in Turkey are examined, it is observed that there was a nominal increase from 2012 to 2017. Among the expense items, the purchases of goods and services and capital expenses were the items with the highest shares, as in municipalities. Additionally, there was a jump in personnel expenses in 2014 after 2013. It can be said that the main reason for this is the need for more personnel as a result of the increase in the number of metropolitan municipalities. The reason for this is also the transfer of special provincial administration personnel, whose legal personality was terminated according to Law No. 6360, to the relevant metropolitan municipalities. Metropolitan municipalities need revenues to cover their expenses. These revenues are provided from the municipality's own revenues or from revenues outside the metropolitan municipality. According to the Metropolitan Municipality Law No. 5216, the revenues of the metropolitan municipality are as follows;

- According to the rates and principles in the Municipal Revenues Law No. 2464, 20% of the Entertainment Tax obtained from joint bets, including horse races, to be collected by the metropolitan municipality will be transferred to the municipality of the place where the races subject to joint bets are held, and 30% will be distributed to other districts (...) to be distributed according to their population. The remaining 50% will be divided into municipalities. All kinds of municipal taxes, duties, and fees to be collected within the social and cultural facilities, sports, entertainment, and recreation areas, and green areas are left to the metropolitan municipality.
- Taxes and hanging, allocation, and maintenance fees for all kinds of announcements and advertisements on the areas specified in clause (g) of the first paragraph of Article 7 and on the buildings facing these areas.
- 50% of the income obtained from the operation of the parking lots determined in accordance with paragraph (f) of Article 7 will be distributed to the district and first-level municipalities according to their population, and the remaining 50%.
- Participation shares for road, water, and sewage expenses are to be collected according to the rates and principles specified in the Municipal Revenues Law No. 2464, provided that the services are provided by the metropolitan municipality.
- Rent, interest and penalty income.
- Assistance from public administrations and institutions.
- Income to be transferred due to the excess between the income and expenses of the subsidiaries in their final accounts.
- Shares purchased from the gross revenue of the metropolitan municipality's economic enterprises at a rate to be determined by the metropolitan municipal council.
- Revenues from movable and immovable property of the metropolitan municipality.
- Fees to be charged for the services to be provided.

- Conditional and unconditional donations.
- Other income

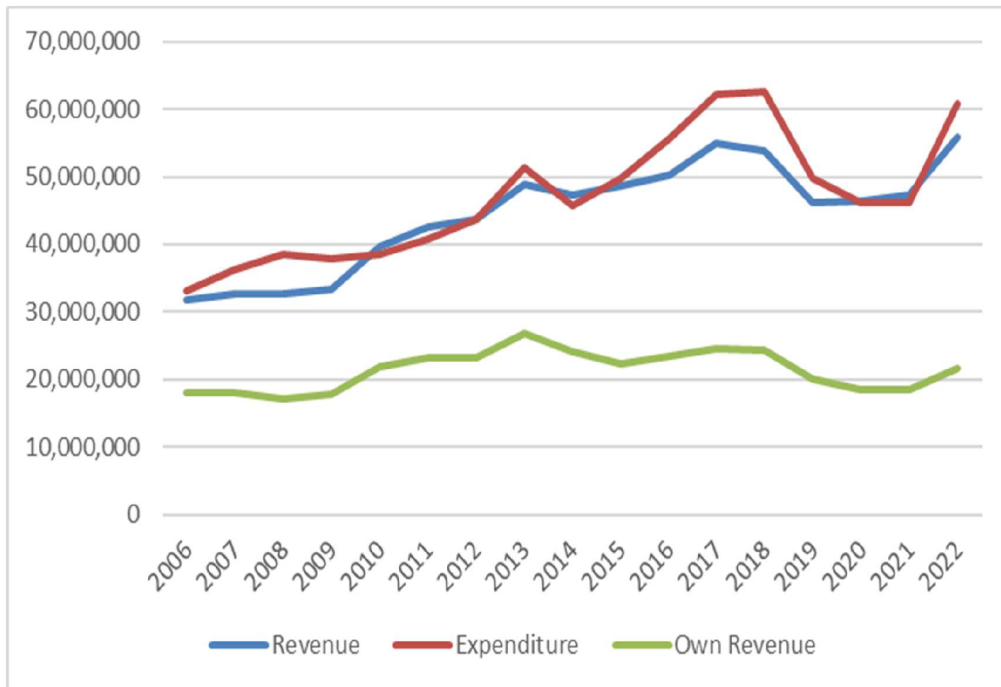
4 Practical Part

In this section, in the first part, the changes in the expenditure and income variables of local and central governments between 2006 and 2022 will be examined, and then the change in Turkey's fiscal federalism between these years will be examined with seven formulas. In the second part, a SWOT analysis of financial decentralization will be conducted within the framework of the literature review mentioned above.

4.1 Measuring Turkey's Fiscal Decentralization

The reel values of the variables, local expenditures, local revenues and local own revenues, are shown in the figure below. The nominal values of the variables are adjusted for inflation using CPI (2006=100). Thus, the trend of the data over the years will be seen in real terms.

Figure 2. Real Values of Local Government Data



Source: Own Calculations

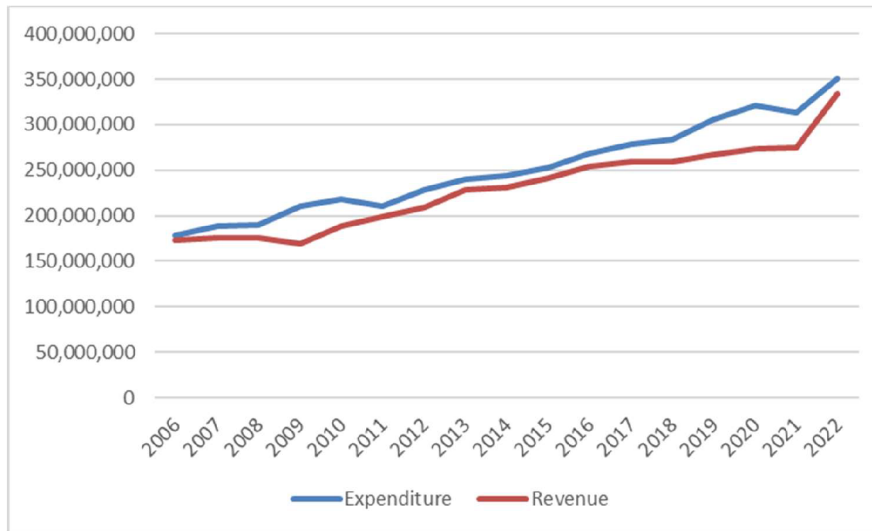
Figure 2 shows that although all real values tend to increase over time, there has been a decrease in all values since 2018. Note that local budget deficits were higher in real terms in the 2006-2009 period and the 2016-2018 period. In the 2010-2015 period, local fiscal adjustment was achieved realistically. It can be seen that the generally increasing trend in

local expenditures broke down in 2014. This one-year decrease in local expenditures is related to the implementation of Law No. 6360 since the local government elections in 2014. Within the scope of Law No. 6360, 14 new metropolitan cities were created, the legal personality of special provincial administrations in all metropolitan provinces was terminated, and the jurisdiction of metropolitan municipalities was expanded to the provincial administrative borders. Because after 2014, the rate of increase in local expenditures has been higher than in other years. It is seen that local revenues increased faster after the 2009 local government elections. Of course, legislative changes had an impact here too. However, in general, it can be said that the increase rate of local expenditures is higher than local revenues. It is considered that the change that has occurred since 2018 is due to the constitutional change in the country. With this change, the country switched to the presidential system of government. This change aims to make the head of the executive branch the president so that the country's decision-making mechanism can be faster. This means that the country is generally moving to a more centralized administration. It can be seen that the constitutional amendment caused a decrease in local governments, as shown in Figure 2.

In this study, while determining the own revenues of local governments, "donations and aid received and special revenues" and "shares received from individuals and institutions" were subtracted from the total consolidated budget revenues of local governments. The remaining figure was accepted as the own income of local governments. These own revenues include tax revenues, enterprise and property revenues, interest revenues, fines, capital revenues and collections from receivables. Figure 2 shows that real local own incomes also tended to increase in the 2006-2022 period. However, this increase could not catch up with the increase in total local revenues. For this reason, the share of local governments' own revenues in their total revenues has decreased over time. In other words, over time, a larger share of local revenues consists of transfers received from the central government. This is actually one of the indicators of the level of financial decentralization. Likewise, it is seen that there has been a decrease in the own income of local governments since 2018.

The real values of total public expenditures and total public revenues, which are among the variables used in the formulas in the analysis, are shown below.

Figure 3. Real Public Expenditures and Real Public Revenues



Source: Own Calculations

As can be seen from Figure 3, there is fiscal adjustment in real terms in the 2011-2015 period. Other years witness significant budget deficits. At the same time, real public expenditures and real public revenues are in an increasing trend in the 2006-2022 period. The fact that real public revenues were in decline until 2009 and increased after 2009 is, of course, related to the contraction in the tax base caused by the 2008-2009 crisis.

In the analysis, seven different fiscal decentralization formulas were calculated for the 2006-2022 period. Table 1 shows these levels of fiscal decentralization together.

Table 1. Fiscal Decentralization Levels According to Different Formulas

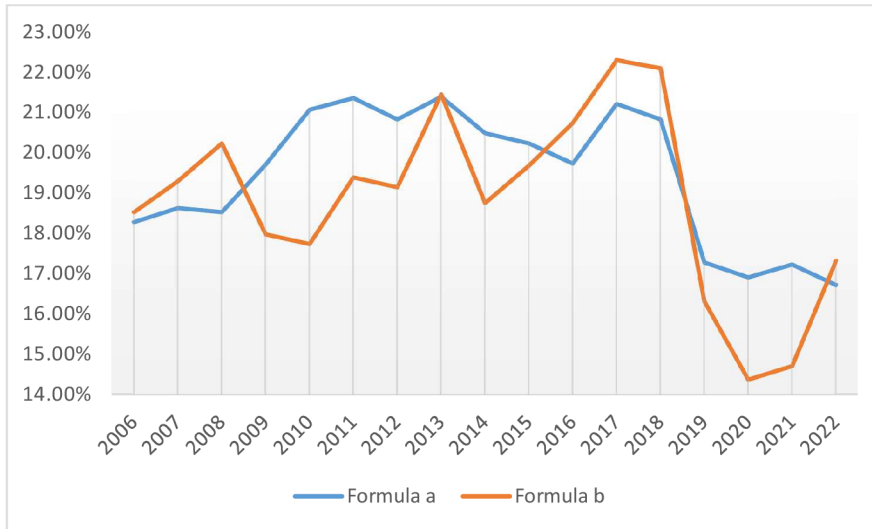
	a	b	c	d	e	f	g
2006	18.29%	18.53%	3.99%	4.15%	10.44%	54.84%	5.43
2007	18.64%	19.30%	4.00%	4.44%	10.22%	49.41%	4.64
2008	18.53%	20.24%	3.87%	4.58%	9.75%	44.49%	7.02
2009	19.71%	17.98%	4.22%	4.79%	10.49%	46.85%	7.25
2010	21.07%	17.74%	4.59%	4.47%	11.57%	56.31%	5.18
2011	21.36%	19.39%	4.51%	4.34%	11.64%	56.65%	9.29
2012	20.83%	19.15%	4.38%	4.38%	11.04%	52.98%	7.85
2013	21.40%	21.46%	4.57%	4.80%	11.72%	52.16%	7.87
2014	20.49%	18.76%	4.24%	4.10%	10.40%	52.55%	6.96
2015	20.24%	19.68%	4.16%	4.24%	9.31%	45.08%	7.31
2016	19.74%	20.75%	4.16%	4.61%	9.24%	42.25%	5.32
2017	21.22%	22.30%	4.27%	4.83%	9.51%	39.66%	3.37
2018	20.84%	22.11%	4.20%	4.88%	9.44%	38.98%	5.60
2019	17.28%	16.31%	3.50%	3.78%	7.47%	40.08%	3.83
2020	16.91%	14.37%	3.45%	3.43%	6.75%	40.16%	1.54
2021	17.23%	14.71%	3.33%	3.25%	6.71%	39.89%	0.87
2022	16.72%	17.32%	3.12%	3.40%	6.49%	35.65%	1.01

Source: Own Calculations

As can be seen in Table 1, Formula A and Formula B values, which show the share of local government revenues and expenses in total public expenditures and public revenues, are close to each other. With the same logic, Formula C and Formula D values, which show the share of local government revenues and expenses in GDP, are also close to each other. Formula E, which shows the share of local government's own revenues in total public expenditures, and Formula F, which shows the share of local government's own revenues in total local revenues, are findings that are unique and should be handled differently from other fiscal decentralization formulas. Formula G, which shows real local expenditures per capita rather than being a ratio, is also a finding that should be considered independently of other formulas. For this reason, formulas A and B and formulas C and D are together; Formulas E, F, and G were analyzed separately.

Figure 4 shows the trend of Formula A and Formula B values, which show the share of local government expenses and revenues in total public expenditures and public revenues.

Figure 4. The Ratios of Local Revenues and Expenditures to Total Revenues and Expenditures (Formula A and Formula B)



Source: Own Calculations

Figure 4 shows that both formula values vary significantly over time. It is seen that Formula A and Formula B values are in different trends between the 2006-2009, 2009-2013, 2013-2016, 2016-2018, and 2018-2022 periods. However, it is seen that both ratios, which had a certain stability from 2006 to 2018, have entered a significant decline since 2018. This situation is thought to be related to the constitutional amendment and the change in the form of government in the country, as mentioned above.

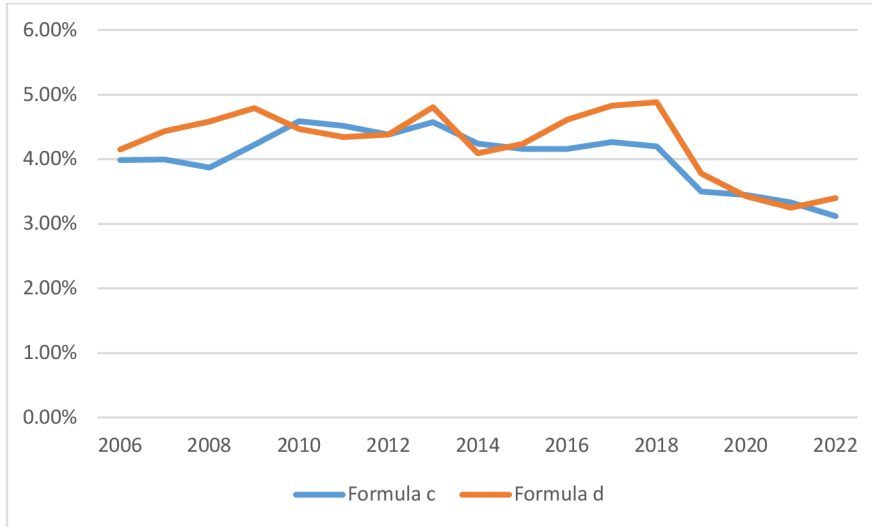
Formula A received its highest values in 2008, 2013, and 2018. The years refer to the years before local government elections. It is understood from here that the share of local expenditures made just before the local government elections in total public expenditures is increasing. In other words, the increase rate of local expenditures in the years before the local elections was higher than the increase rate of total public expenditures. With the same logic, according to Formula A, the years with the most significant decreases are 2009, 2014, and 2019. The years are the years in which local government elections took place. This shows that the excessively high spending value before local elections normalizes during election years. Of course, legislative changes also have an impact here. For example, the administrative changes made in 2014 with Law No. 6360 impacted the sharp decline in 2014 and the rapid rise thereafter. In 2014, 14 new metropolitan municipalities were created, the legal personality of special provincial administrations in all metropolitan provinces was terminated, and the jurisdiction of metropolitan municipalities was expanded to the

provincial administrative borders. For this reason, after 2014, the expenditures of metropolitan municipalities, which have a wider jurisdiction and are more numerous, affected the increase in Formula A.

Figure 4 also shows Formula B, which expresses the ratio of local revenues to total public revenues. What needs to be known here is that the public expenditures that constitute the denominator of the formula in question consist mainly of central government tax revenues. In other words, the tax base, which constitutes the denominator of the formula, may change depending on the economic conjuncture. Local revenues, which constitute the share of the formula, consist mainly of transfers from the central government (shares allocated to local governments from general budget tax revenues). In other words, local revenues are only slightly affected by changes in the base of local taxes. For this reason, the course of local revenues is parallel to the course of total public expenditures. In Figure 4, the years in which Formula B increased the most are 2010, 2013, and 2017, which are the same years in which public revenues increased. Generally speaking, Formula A, which expresses the ratio of local expenditures to total public expenditures, is between 16.72% and 21.40%. In other words, according to Formula A, the level of fiscal decentralization in Turkey in the 2006-2022 period varies between 16%-22%. Formula B, which expresses the ratio of local revenues to total public revenues, has a value between 16.31% and 22.3%. In other words, according to Formula B, the level of fiscal decentralization in Turkey between 2006 and 2022 ranged between %16-22%. As you can see, the values are very close to each other.

Formula C and Formula D values, which show the share of local expenditures and local revenues in GDP, are shown in Figure 5.

Figure 5. The Ratio of Local Expenditures and Revenues to GDP (Formula C and Formula D)



Source: Own Calculations

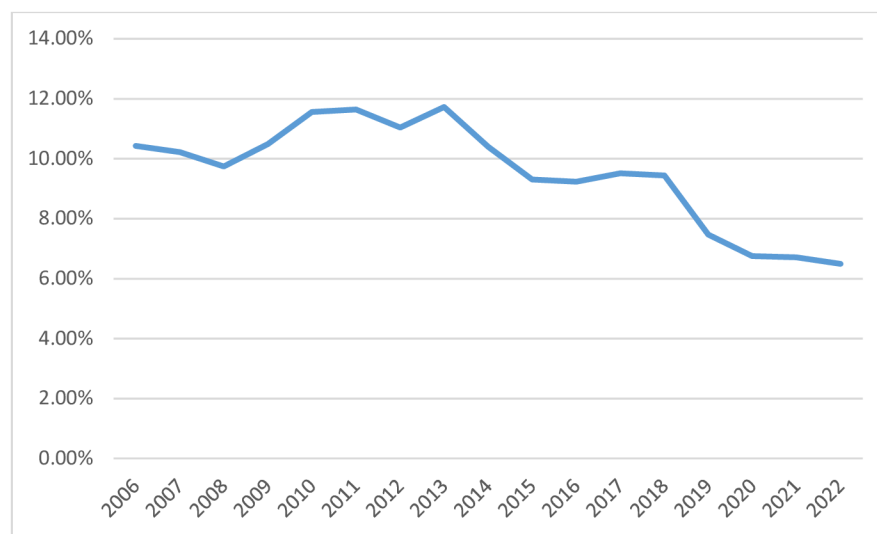
Figure 5 shows the share of local expenditures and local revenues in the national economy. Therefore, the variability of Formula C and Formula D rates depends on the comparison of the growth rate of local income and expenses with the GDP growth rate. The years in which Formula C values, which show the share of local expenditures in GDP, are rising are when the local expenditure increase rate approaches the GDP increase rate. The years when Formula C values are in decline are the years when the local expenditure growth rate moves away from the GDP growth rate (in other words, it is less). It is seen that the year with the highest Formula C value is 2013, and the year with the lowest is 2022. Especially since 2018, a decrease in the value of Formula C is noticeable.

Figure 5 also shows Formula D values, which express the share of local revenues in GDP. Here, too, the growth rate of local incomes and the GDP growth rate are decisive. In 2009, 2010, and 2018, when the Formula D value was highest, the growth rate of local incomes was higher than the GDP growth rate. It is noteworthy that there were decreases in 2014 and 2019. 2009 is a particular year here. In 2009, when the global economic crisis in the world and in Turkey caused a significant decrease in GDP, the share of local incomes in GDP increased and the Formula D value increased significantly. Generally speaking, Formula C, which expresses the ratio of local expenditures to GDP, is between 3.12% and 4.47%. In other words, according to Formula C, the level of fiscal decentralization in Turkey between 2006 and 2022 varies between %3-5%. Formula D, which expresses the ratio of

local revenues to GDP, has a value between 3.25% and 4.88%. In other words, according to Formula D, the level of fiscal decentralization in Turkey between 2006 and 2022 varies between %3-5%.

Formula E, which expresses the share of local government's own revenues in the total public sector size, is shown in Figure 6.

Figure 6. The Ratio of Own Revenues of Local Government to Total Public Expenditures (Formula E)

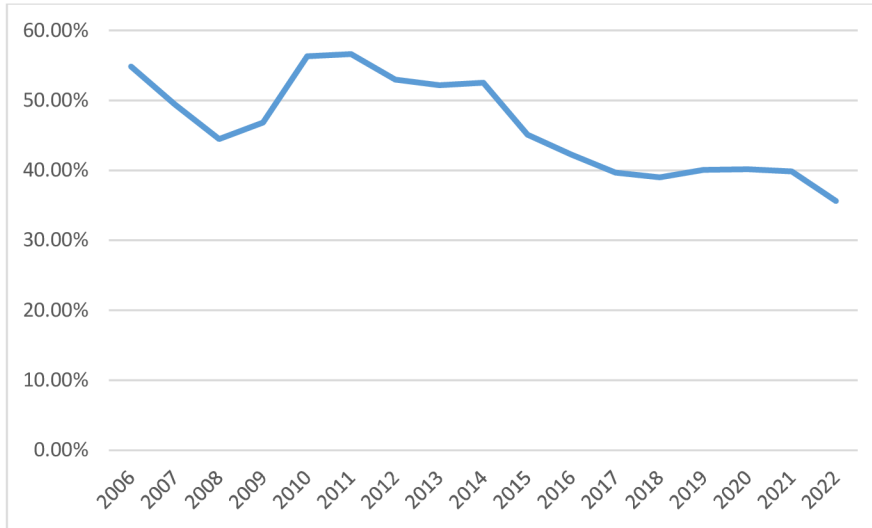


Source: Own Calculations

It is seen that Formula E values, which are calculated by dividing local government own revenues by total public expenditures, are generally on a downward trend in the 2006-2022 period. Formula E value increased in 2010, 2013, and 2018, when the local own income increase rate was higher than the total public expenditure increase rate. The years 2008, 2015, and 2022 were the years in which Formula E received the smallest value. Generally speaking, the Formula E value, which shows the share of local governments' own income in the total public sector size, is between 6.49% and 11.72% between 2006 and 2022, and according to Formula E, the level of fiscal decentralization in Turkey tends to decrease.

Formula F values showing the share of local government's own revenues in total local government revenues are shown in Figure 7.

Figure 7. The Ratio of Own Revenues of Local Government to Total Local Revenues (Formula F)



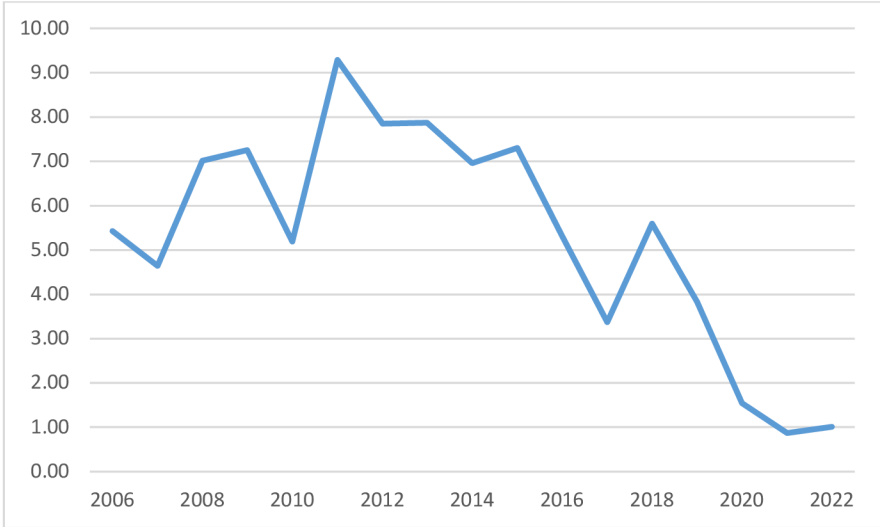
Source: Own Calculations

One of the indicators of fiscal decentralization is how much of the total revenues of local governments consist of their own revenues and how much of them consist of transfers received from the central government (shares allocated to local governments from general budget tax revenues). The increase in the share of local government's own revenues in their total revenues may mean that fiscal decentralization has also increased. According to Figure 7, Formula F values are in a downward trend in Turkey in the 2006-2022 period. The main reason for the break experienced in 2014 is that the own revenue growth rate was higher than the total local revenue growth rate in that year. The reason why the Formula F value decreased significantly again in 2015 is that own revenues decreased in real terms while total local revenues continued to increase. The important thing here is the range of Formula F values. Accordingly, the share of local own revenues in total local revenues in Turkey in the 2006-2022 period is between 35.65% and 56.65%. In other words, according to Formula F, the level of fiscal decentralization varies between %35-57%. The rate in question is not high in terms of the distribution of income types. Because the ratio in question shows that the total revenues of local governments are still dependent on the central government. It is seen that the country has become more centralized, especially since 2018.

Unlike all these formulas that measure the level of fiscal decentralization, fiscal decentralization can also be measured in terms of local expenditures per capita. Since this measurement technique, which may vary depending on the population criterion, does not contain a relative value, the local expenditure value here must be adjusted for inflation.

Therefore, Formula G represents the local expenditure per capita and is shown in Figure 7.

Figure 8. The Reel Local Expenditures per Capita (Formula G)



Source: Own Calculations

As seen in Figure 8, the Formula G value, which shows the real local expenditure per capita in Turkey in the 2006-2022 period, followed a fluctuating course. Formula G, which reached its highest value in 2011, started to experience a serious decline starting from 2011 and decreased to 1 level in 2021. Generally, it reached the level of 9.29 in Turkey in the 2006-2022 period and then decreased to the level of 1.01.

When we evaluate Turkey's financial decentralization level by looking at the seven formulas in general, it is seen that the country's decentralization level follows a quite fluctuating course. Although there is an increase in local expenditure and income levels during local election periods, it is seen that the change becomes seriously negative immediately after the elections. However, it seems that 2018 is a turning point in the country's ideal federalism. As a matter of fact, there has been a negative break seen in all fiscal decentralization formulas since this year.

4.2 SWOT Analysis of Fiscal Federalism

There are many different approaches to the advantages and disadvantages of fiscal decentralization, which refers to the sharing of taxation and spending powers between public administration or local administration, and these approaches and fiscal decentralization theories are included in the literature review section of the thesis. In this section, a SWOT analysis will be conducted to address the strengths, weaknesses, opportunities and threats of financial decentralization within the framework of all these theories and approaches.

Strengths of Fiscal Decentralization

- **Decentralization of Powers:** Increasing the powers of local governments will lead to meeting the needs of local people faster and giving more importance to the preferences of local people, thus resulting in a faster and result-oriented decision-making process. The wishes and preferences of the local people may come to the fore.
- **Efficiency in Resource Allocation:** It will allow resources to be used more efficiently, as they will be allocated to meet local needs rather than more general needs, as in central government.
- **Promoting Financial Competition:** This will bring better service and innovation as there will be competition between local governments.
- **Enhanced Democratic Participation:** Focusing on fewer people's problems and seeking solutions compared to the general government will strengthen democratic decision-making processes and benefit the development of democracy.

Weaknesses of fiscal decentralization

- **Risk of Fiscal Imbalance:** It may cause income and expenditure inequality between regions with more resources and regions with fewer resources, which may lead to inequalities among local people.
- **Complexity in Governance:** The multi-level nature of governance can lead to complexities in policy implementation and coordination across various levels of government.
- **Potential for Duplication of Efforts:** Conflicting some functions and responsibilities will cause inefficiency in the use of resources.

- **Interjurisdictional Externalities:** In situations such as natural disasters or public health crises that affect more than one region in the country, there may be delays in strengthening cooperation and finding solutions.

Opportunities

- **Innovation in Governance:** It will enable the emergence of a more innovative structure in management approaches by creating suitable test environments for the implementation of new policies and management models.
- **Economic Diversity:** It will support regional development strategies due to the emergence of more diverse economic models.
- **Attracting Investment:** Regionally, local governments will be able to regulate tax and expenditure policies to attract investment, thus gaining opportunities to generate more income.
- **Increasing the Ability to Respond to Crises:** In case of local crises, they will be able to react faster and provide more effective solutions to crises.

Threats

- **Separatist Movements:** Separatist feelings may increase for regions with different cultural and economic identities, which may lead to conflict or the emergence of separatist groups between regions.
- **Interregional Inequalities:** Economic inequalities that arise between regions may cause social and political tensions to emerge.
- **Dependency on Central Transfers:** The limited resources of some regions may cause these regions to be overly dependent on the central government, making it difficult to implement fiscal decentralization there.
 - **Compliance and Coordination Costs:** The need for comprehensive regulatory frameworks to manage relationships between different levels of government can lead to high compliance and coordination costs.

5 Results and Discussion

Local governments are considered one of the cornerstones of public administration, and their inclusion within the national administration requires them to work in harmony with the central government. These institutions have a critical role in meeting the common needs of the society and maintaining local government functions smoothly. Local governments are divided into two main categories: local governments and service-based governments. Local administrations include the provision of services not by the central government, but by autonomous public organizations (special provincial administrations, municipalities and village administrations) that are not included in the hierarchical structuring of the central government. Service-based management is the execution of certain public services by organizations outside the center (Chygryn et al., 2018).

Local and service-based governments have to meet the local and common needs of individuals within national borders, protect their interests and fulfill the duties imposed on them by the central government. While providing these services, it is important that local administrations have the decision-making authority and the capacity to implement these decisions. This ensures the smooth execution of the duties and powers delegated by the central government to local governments (Sagbas et al., 2005). Local governments increase the quantity, quality and continuity of services provided. In addition, local governments allow for the integrity of the administration, the harmonious planning and implementation of services, and the free regulation of internal structures. This situation leads to the emergence of the concept of autonomy of local governments. The autonomy of local governments is ensured by factors such as the ability to make independent decisions, having autonomous institutions, being elected to office, and having access to sufficient financial resources (Boadway & Shah, 2009).

In Turkey, the autonomy of local governments is protected by the constitution and various legal regulations. The autonomy of local governments is also supported by intergovernmental sharing of resources. This resource sharing can be called financial distribution and is defined as the division of tasks and resources between the central government and local governments. Failure to ensure full financial distribution causes the problem of inequality between administrations to emerge. Inequality between local governments leads to an increase in development differences and migration to other local government units. In order to eliminate this inequality, the central government must transfer

resources directly to low-income local governments or transfer resources from high-income local governments to those with greater financial need. In addition, local governments must have sufficient resources to provide services. This is possible by giving taxation authority to local governments. The administrative and expenditure responsibility granted to local governments also requires the authority to provide the necessary financing. The borrowing power of local governments contributes to supporting financial autonomy and decentralization. All of this increases the degree of fiscal decentralization, as local governments can increase their own revenues (Neyapti, 2005).

Fiscal decentralization, Musgrave's "triple allocation theory", Tiebout's efficiency in resource distribution, Olson's that public services should be provided by local governments, Oates's need to meet the needs at the local level, Brennan-Buchanan's that central powers should be transferred to local governments and It is supported by the thoughts of second generation theorists on fiscal decentralization. Second generation theorists point out potential conflicts of interest between local administrators and local people and emphasize the importance of greater transparency and accountability in the financial and administrative decisions of local governments(Oates, 2005).

In this context, structural and functional regulations have been made in local governments in Turkey since the 1980s, and localization efforts have aimed to create a more effective and fair public administration. Since 2003, many legal regulations have been made to increase financial decentralization, especially within the framework of the European Union harmonization process. From the measurement results made in this thesis covering the years 2006-2022, it was seen that there was an increase in all fiscal decentralization criteria from 2006 to 2018. However, after the constitutional amendment in 2018, it was observed that there was a weakening in fiscal decentralization and a decrease in these indicators. It is considered that this situation may be affected by the fact that the country has entered a turbulent period both politically and economically with the constitutional amendment, and that the country has entered a more centralized management process due to the Covid 19 epidemic that affected the whole world in 2020.

6 Conclusion

In this thesis, financial decentralization was discussed in all its aspects, Turkey's financial decentralization level was measured between 2006 and 2022, and finally, a SWOT analysis was conducted in which the strengths, weaknesses, opportunities and threats of financial decentralization were examined within the framework of the results obtained from the literature.

As a result of the examination and analysis, it was concluded that fiscal decentralization has a very important place in terms of the development and democratic development of the country, but also taking into account the disadvantages it has, and a very original and detailed management approach was created while creating the legal framework by taking into account the characteristics of all local governments of the country. It was seen that it should be included. It has been observed that features such as income inequality between regions and cultural and political identity differences in the regions should be handled well. Although localization has advantages such as increasing democracy and providing services to local people quickly and in line with their wishes, there may also be threats that income differences between regions may lead to political conflicts between regions or community differences may lead to separatist movements.

When Turkey's fiscal decentralization process is examined, it is seen that the country has given importance to the decentralization of local governments since the 1980s, and especially since 2003, there has been an increase in the level of fiscal decentralization. In the analysis covering the years 2006 and 2002, it was observed that there was an increase in the country's fiscal decentralization level until 2018, but there was a decrease starting from 2018. It was evaluated that the reasons for this situation were the adoption of a more centralized management approach with the constitutional amendment in the country and the economic and political turbulent period of the country.

It has been seen in many theories and studies put forward in the literature research that the level of financial decentralization of the country is very important for the development and democratic development of the country. For this reason, it is very important for Turkey to increase its level of financial decentralization, especially for the country's European Union accession process and reaching the desired level of development. For this

reason, it is thought that after the constitutional changes in 2028, new legal regulations are needed to increase the powers of all local governments in accordance with the new system.

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