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Principal-Agent-Ethical Relationship in the Formation of Fiscal Policies: Theoretical Evaluation

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Abstract: This study delves into the link between ethics and fiscal policy decisions that are made in line with the way public finances are organized, suggesting that when it comes to ethics, there is an intersection between society and policymakers that serves as a balance point. However, this balance point may not always be correctly located due to issues such as collective stalemate problems and asymmetric information. While social ethics is considered a positive democratic phenomenon, it may also have a negative meaning due to flawed perceptions, and an ethical standard formed by social consensus has a high probability of proving erroneous. To address this, it is necessary to have accurate and stable information transfer as a global public good to reduce the asymmetry of ethical problems.

The public sector allocates resources based on its ethical preferences through fiscal policies, with the proportional distribution of expenditure items in the budget reflecting such ethical considerations. The budget also plays a key role in shaping social organization and influencing future generations, so it is imperative to limit such an important document, namely the budget. In this respect, ethics could serve as a guiding principle for making decisions about how public funds are allocated through fiscal policy. Therefore, ethics can be viewed as a fiscal rule imposing numerical ceilings as a permanent constraint on fiscal policy.

Keywords: Fiscal policy, fiscal ethic, private sector, principal-agent relationship, democracy.

Öz: Bu çalışma, kamu maliyesinin örgütlenmesinin bir sonucu olarak alınan maliye politikası kararlarının etik ile olan ilişkisini teorik olarak ele almaktadır. Çalışmada toplum ile politik karar alıcıların etik konusundaki kesişimi ve bu kesişimin bir denge noktası olduğu ifade edilmiştir. Ancak bu toplumsal etik, kolektif açmaz sorunu ve asimetrik enformasyon gibi nedenlerle yanlış bir denge noktasında da yer alabilir. Bu nedenle toplumsal etik, demokratik bir olgu olarak düşünüldüğünde pozitif bir anlam taşırken; yanlış oluşmuş bir algının neticesinde negatif bir anlama da sahip olabilir. Dolayısıyla salt toplumsal uzlaşıyla oluşmuş bir etik standardın yanlış olma ihtimali de yüksektir. Bu açıdan küresel kamusal bir mal olan bilginin doğru ve istikrarlı bir şekilde aktarılması, asimetrik etik sorununu en azından azaltabilir. Kamu kesimi maliye politikaları vasıtasıyla söz konusu kesişime veya kendi etik tercihlerine göre kaynak tahsisi yapar. Bütçedeki harcama kalemlerinin oransal dağılımı, bu etik tercihlerinin bir tezahürüdür. Dolayısıyla bütçe, toplumsal organizasyonu şekillendirir ve gelecek nesillerin etkilenmesine yol açar. Böyle önemli bir belgenin (bütçenin) sınırlandırılması bu açıdan oldukça önemlidir. Sonuç olarak etik, bir mali kural olarak düşünülebilir.

Anahtar Kelimeler: Maliye politikası, mali etik, özel sektör, asıl-vekil ilişkisi, demokrasi.

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Introduction

Over the recent two decades, the issue of ethics has become popular again amidst the financial crises triggered by investors, state institutions and politicians in the financial markets, which ultimately leads to economic and social disruptions. The state's obligation to ensure the welfare of its citizens through public policies and institutions has also prompted the assessment of the policies implemented within the framework of ethics.

The relevance of ethics in governance has become even more evident with the advent of democracy. The perception of declining standards of living for citizens has sparked a debate over the costs of malfeasance and the social responsibility of organizations entrusted with protecting public interests and resources. Such costs, also known as alternative costs, include the loss of trust in public institutions and the depletion of valuable resources that support the economic and social development of nations. This perceived decline in public standards is accompanied by the changing role of states, which are undergoing reforms driven by globalization, technological advances, democratization, and financial crises. All these factors necessitate that the state serve its citizens in a more rational manner, distribute power more widely, and abandon outdated practices, which puts immense pressure on public administration to transform itself and better adapt to these evolving needs (UN, 2000: 4).

The study of economics, which examines the interactions of individuals and groups within society, can be considered a part of sociology. A.C. Pigou (1877-1959) distinguished economics from sociology, thus enabling it to be studied under the framework of fiscal ethics. Pigou (1946) emphasized the significance of money as the primary measurement tool in social life, but economists have also made a distinction between two types of ethical phenomena: positive economics and normative economics. Positive economics focuses on measuring economic realities and relationships, and explaining the causes of economic events and trends. In contrast, normative economics deals with evaluating whether one policy or institutional structure is more desirable than another. This type of economics is teleological (Little, 2002: viii-xii), as it is concerned with the end goals or objectives of economic policies or structures. Sen (2004: 89) argues that welfare economics should consider ethical issues and establish a closer relationship with the economy. However, the nature of the business makes it challenging to establish this relationship between ethics and economic policies. In contrast, Robbins (1935: 148) suggests that economics deals with measurable reality and is not concerned with values and obligations as ethics do. For this reason, ethics and economics are not in the same category or level of discussion. In other words, they are distinct fields that deal with different types of questions and issues. This separation also caused a distinction between positive and normative economics studies. Clark and Lawson (2007) observe that economists tend to shy away from discussing normative questions about how society should function, and instead focus on making positive observations about specific goals. However, Friedman (1953: 4-5) argues that positive economics is fundamentally independent of any ethical position or normative judgment. According to him, a normative economy cannot exist independently of a positive economy. Similarly, Vickrey (1953: 35) argued that economics should be viewed as a logical system, comparable to Euclidean geometry, and should not be influenced by ethical considerations. Simons (1938: 2), one of the important representatives of the Chicago school, on the other hand, criticized authors who brought their religious beliefs into their discussions of tax policy, arguing that fiscal policies should be designed to ensure individual freedom. Shaviro (2013: 14) also emphasized the importance of considering ethical issues, particularly the freedom of individuals, in the design of income tax policies. Although there are various views in the literature regarding the association of ethics and economy, handling fiscal policies within the framework of ethics will present a different perspective in examining the relationship between the state and the citizen today. The neoclassicists, the proponents of positivism, seem to have a case that economics is unethical. However, their analysis makes use of specific types of market failures such as externalities, asymmetric information, and free-riders (Brower & Saunders, 1990: 329). Therefore, economics cannot be separated from ethics, and economic theories and models necessarily involve ethical judgments and assumptions, even if these are not always made explicit.

The main goal of this study is not to delve into the etymology or historical theoretical underpinnings of the concept of ethics. Rather, it seeks to explore the ethical basis of fiscal policies, specifically aiming to highlight that policymakers adopt fiscal policies based on their ethical convictions. The focus is on exploring the connection between fiscal policies and ethics, without engaging in a philosophical debate as to the differences between ethics and morality. Although the difference between these two concepts is vague (Rowthorn, 2002: 15), it has no importance in terms of the evaluation of fiscal policies. In this case, the concept we need to consider is fiscal ethics. Vogel (1974: 500) defines fiscal ethics as encompassing the behavior, attitude, and responsibility of taxpayers with regard to fiscal legislation. This narrow definition sets fiscal ethics apart from the concept of tax morale/

ethics, which concerns the relationship between individual values and socially accepted values (Alarcón-García et al., 2015: 953). Fiscal ethics, on the other hand, focuses specifically on the interaction between individual values and the state with regard to fiscal matters. A broader examination of the concept of fiscal ethics highlights this difference more clearly. In this broader sense, formal and informal norms, codes of conduct, mutual communication, and cooperation between the fiscal bureaucracy and taxpayers are determined not only by the legislation in force but also by a historical, institutional, and political structure. Factors such as the level of cultural development and professional competence also play a significant role in shaping these norms and codes of conduct. The components of the concept of fiscal ethics are mutually dependent and intertwined in the formation and implementation of the state's fiscal policy (Vasilevska, 2019: 205-206).

This study aims to assess tax policy from an ethical standpoint and will not delve into a detailed discussion of the ethical implications of corruption, tax evasion, or misreporting, as previous research has already dealt with these issues. Existing research highlights the importance of ethical accountability in the tax system (Frey & Torgler, 2007; Torgler, 2012), the role of personal morality in promoting tax compliance (Kirchler et al., 2008), and the connection between tax justice and fiscal transparency (Rodríguez et al., 2015). On top of that, Capasso et al. (2021: 1032) have explored the relationship between the state, citizens, tax-benefit analysis, and tax compliance. They suggest that as taxpayers' knowledge about tax regulations increases, their tax morale also increases. Based on their findings, the study recommends that the public sector should prioritize reducing asymmetric information, thereby encouraging society to pay taxes voluntarily. Rather than rely solely on increasing the number of tax officials or implementing tax penalties for non-compliance, the study advocates for a policy of increasing society's level of knowledge about tax regulations to promote voluntary tax compliance.

This discourse on the role of ethics in fiscal policy suggests that the fiscal relationship between citizens and the state is founded on an ethical contract, wherein both parties agree to mutual compromises and balances. This study therefore hypothesizes that fiscal policy is a form of ethical contract between the state and society. The research employs a qualitative data analysis method utilizing existing documents and secondary analysis, which involves analyzing and reconstructing documents to provide answers to the research question. The study is divided into five parts, each addressing a specific aspect of the relationship between ethics and fiscal policy. The first part will discuss ethical theories and their relevance to public finance, outlining the theoretical framework of the study. The second part will examine the role of ethics in the relationship between the business world and fiscal policy, questioning the foundations of the ethical phenomenon and exploring its interaction with finance. The third part will focus on the position of ethics in institutional organization and fiscal structure, emphasizing the importance of ethics in shaping the determinants of fiscal policies. The fourth part will explore the relationship between fiscal policies and ethics in the context of financial crises, technocracy, and symbol manipulation, highlighting the ethical dimension of the relationship between the state and the citizen. Finally, the fifth part will examine the ethical ideals and commitments of politicians reflected in financial decisions made by the public sector. The study will culminate with a section for evaluation and conclusions.

Ethical Theories and Public Finance

Ethics examines what is morally good and bad, right, and wrong. Ethics and moral philosophy are often considered synonymous in the study of philosophy. There are at least three different reasons why the relationship between economics and ethics is significant. First, economic analysis involves making choices between alternative courses of action based on different values and beliefs, so economists cannot avoid making value judgments when they assess the costs and benefits of different policies or analyze economic outcomes. The second reason stems from the fact that economics is fundamentally concerned with human behavior and social interactions, which are inherently ethical phenomena. To understand the behavior of individuals, groups, and institutions in the economy, economists need to take into account ethical considerations such as fairness, trust, and social norms. The third reason relates to the fact that economics is often used to inform policy decisions. Economists study the economy and assess its current state and necessary actions for improvement. This involves evaluating whether the current state is desirable or undesirable and developing policies that would promote positive outcomes, which requires ethical considerations (Dutt & Wilber, 2010: 4,14). For instance, when economists design policies to reduce poverty or inequality, they must consider whether these policies are fair, just, and equitable, thus the relationship between economics and ethics is multifaceted and complex and involves making value judgments, understanding human behavior and social interactions, and designing and evaluating policies that have ethical implications.

The ongoing discussion regarding economics and ethics is shaped by an increasing dissatisfaction with the prevailing trend of prioritizing the technological and economic aspects of social and economic progress over human and social benefits. This may stem from the fact that while there are established theoretical and practical models for addressing economic and technological issues, it is challenging to concretely define and measure the human and ethical dimensions. Consequently, the role of economic theory, particularly neoclassical economic theory, has been the subject of extensive debate and criticism. This is because neoclassical theory is criticized by both economists and other social scientists for being unrealistic and excessively narrow in its assumptions about human behavior (Lewis & Wärneryd, 1994: 8).

When examining the link between ethics and moral theory, we can understand that morality pertains to the norms, values, and beliefs that govern social processes and determine what is right or wrong at both individual and societal levels. Ethics, on the other hand, deals with the practices that aim to clarify the underlying reasons behind these rules and principles. In essence, moral theory emerges from ethical justifications of moral codes (Harper, 2009: 1064-1065). Ethical theories, they are often classified into two groups: normative and non-normative theories. Normative theories aim to provide a framework for determining what is right and wrong, whereas non-normative theories seek to describe and analyze ethical phenomena. Normative theories can be further subdivided into three categories: teleological, deontological, and virtue ethics (Fisher & Lovell, 2009; Jonsson, 2011), and non-normative theories can be further divided into two categories: descriptive ethics and meta-ethics. Although ethical theories can be discussed in various fields such as behavioral ethics and evolutionary ethics, this study will focus on normative ethical theories due to the normative nature of fiscal discipline. Moreover, fiscal discipline inherently involves political costs. The minimum wage, income tax tariff structure, and social security policies are examples indicating that fiscal discipline is more concerned with political costs than economic costs. Thus, the normative preferences of politicians determine political costs.

Normative ethics addresses what is right and wrong, what ought to be done, and why (Schroeder, 2017: 674). The focus in evaluating the morality of actions is that the results are good, according to teleological theory, which is the first of the normative theories. The teleological theory of morality can be divided into two classes, namely egoism and utilitarianism (Frederiksen, 2010: 357). The theory of egoism posits that individuals should behave in a manner that promotes their own self-interest and well-being (Aldred, 1997: 160). Another teleological theory is utilitarianism. This theory, which was developed by J. Bentham (1748-1832) and later by J. S. Mill (1806-1873), has been accepted as a theory of morality and justice. As one of the important names of utilitarianism, Mill accepts utilitarianism as the basis of morality as the greatest happiness principle (Graafland, 2021: 52). Mill emphasized that the goal of utilitarianism is to "get good results" by counting the actions as good to the extent of the happiness that they give. To put it differently, Mill considers well-being to be one of the goals of human life and one of the moral criteria. In this context, Mill conveys an Aristotelian moral judgment about the way in which people should behave (Pandit, 2016: 59; Beckerman, 2017: 139). For example, the teleological approach argues that when allocating public resources, they should be distributed in a way that maximizes total utility. Therefore, the individual who should benefit the most from this allocation should be the individual to whom the resource allocation (e.g., an unrequited transfer or a tax deduction) is made. If this is not the case, the fiscal policy will not be effective (Broome, 1999: 114).

Deontological ethics, best represented by Kant's rational duty approach (Windsor & Boatright, 2010: 444), is a duty-based theory, asserting that nothing could bring moral well-being via happiness, pleasure, and utility. It is also known as Kantian ethics for this reason. The deontological theory is based on the action itself, rather than on the consequences of the actions. There are at least some actions that bear a moral obligation, regardless of the consequences (Wolff, 2012: 92). The theory that focuses on the "rights" rather than the duties and principles of the deontological theories is referred to as the theory of rights. The theory of rights is based on what is called natural law theory, which is considered is rational. Rights as constituted by society are protected and given the highest priority in rights-based ethical theories, and they are considered ethically correct and valid because they are supported by a large population. Determining the characteristics of a right in a society is the greatest complexity of this theory. In order for a society to determine which rights it is going to enact, it has to decide what its goals are and what its ethical priorities are (Graafland, 2006: 173).

J. Rawls (1921-2002) proposed an alternative to utilitarianism for defending freedom, which is his theory of justice. In this non-utilitarian approach, Rawls uses a hypothetical contract argument (Wolff, 2022: 152-154), arguing that certain positions, such as public office, employment, and education, must be open to all individuals, regardless of morally arbitrary characteristics. Rawls contends that everyone should be allowed to compete for these positions and have an equal opportunity for success, and their social class or status should not affect their eligibility for advantageous positions (Vitikainen, 2015: 75).

Virtue ethics theory judges an individual based on his or her character rather than on the basis of a particular action that may be a departure from typical behavior. This theory evaluates atypical or disorderly behavior that is considered unethical by factoring in an individual's morals, reputation, and motives. Normative ethical theories that have an emphasis on character and integrity are known as virtue ethics. Issues related to the nature and definition of virtues and the consequences of actions are studied by those interested in virtue ethics. The questions include how virtue is acquired, how it is applied in different real-world settings, and whether it is universal or cultural. A weakness of virtue ethics, however, is that it does not account for changes in an individual's moral character over time (Dembinski & Cook, 2017: 19; Shionoya, 2008: 76-80).

It can be said that there is no single ethical theory in fiscal discipline based on the ethical theories mentioned above. According to this theory (utilitarianism/benefit theory of taxation), taxes are paid because of the benefits obtained from public goods and services. However, benefit-cost relationship rests on the assumption that taxpayers will comply with their tax and other obligations considering that they receive sufficient benefits from public goods and services (Deontology/Kantianism). A critical question arises at this point: This social contract includes mutual obligations and responsibilities between the state and the citizen (or taxpayer). If the rules in this contract are not followed, asymmetrical relationships related to financial ethics ensue. For example, the principle of financial solvency in paying taxes has been included in the constitution of all modern states with developed tax systems. However, in countries where a significant part of tax revenues comes from indirect taxes, this principle (principle of solvency) is violated. In addition, the tax perception/culture/consciousness in a country constitutes the role model of the citizens of that country in terms of fiscal ethics (virtue theory). Thus, when taxpayers take advantage of tax amnesty, deferral, or deduction instead of paying taxes on time, the time value of money becomes a disadvantage. This can harm the tax ethics of a country by promoting a negative attitude towards timely tax payments. Similarly, if the relationship between the taxes paid and the degree of benefit from public goods and services is against the taxpayer, financial ethics are also negatively affected. As such, the current study's theoretical framework combines utilitarianism and deontological theories, making it a mixed approach.

However, the general theoretical structure of the study is related to the theories of normative ethics. Normative preferences are inherently reflected in a country's tax system, method of collecting public revenues, and policy choices regarding public expenditures. Issues such as whether to levy high taxes on those with high incomes, fiscal policies to redistribute income through transfer expenditures, and whether basic services such as education and health should be pure public goods are the main areas of debate on fiscal discipline and are normative in nature.

The issue of collective stalemate, which is of interest to public finance, is also related to ethical theories. It occurs when a decision that is rational for the citizen produces socially irrational consequences. In the collective stalemate problem, the taxpayer performs a cost-benefit analysis and concludes that the costs are high. As a result, the taxpayer avoids the cost, which creates the free-rider problem. If the government (public finance) did not exist, irrational results would occur for the society. The collective stalemate problem is one of the primary reasons for the existence of the principal-agent relationship. In resolving this problem, the state plays a crucial role. Similarly, in cases where Pareto efficiency cannot be achieved, the state may intervene in the economy to achieve Pareto optimum, which is a concept in welfare economics. However, in situations where the economy is already at Pareto optimum, the state does not need to intervene. The unethical behavior of taxpayers therefore plays a significant role in such situations where the state should intervene in the economy, while the state should be an effective and social regulator of the institutional structure through the social contract.

The Position of Fiscal Ethics in the Business World

In an economy, when taxpayers do not discharge their tax duties and responsibilities, they acquire a financial advantage over taxpayers who regularly meet their tax obligations and duties, which exerts a negative impact on the tax culture and awareness in the society. In addition, tax evasion, which is an essential element of tax ethics, severely affects the provision of public services and often leads to an increase in the tax burden to compensate for the loss of revenue.

Businesses seek to minimize their tax liabilities through tax planning to benefit from the tax incentives, exemptions and exceptions offered by the public sector. Thus, companies will make decisions to achieve their vision and mission. To this end, there is legitimacy for unethical behavior in tax matters, especially through the choice of "tax avoidance" methods. Although such a choice is not intended or foreseen by the government, it is not illegal. Avoiding taxes is the response of the tax payer to the tax through reduction or destruction of the tax base. Tax avoidance is not a crime in the tax laws and there is no penalty for it. In contrast, Gabor (2012) and Sandmo (2005) define tax evasion as any illegal avoidance of paying taxes by a person, business, or other organization. While tax evasion is an unethical practice, tax avoidance is a business ethics issue as companies seek to interpret tax laws in a manner that reduces their tax burden due to the unfavorable perception of taxes. In other words, it is because tax has a pejorative meaning among taxpayers. The intersection of principal-agent ethics in the formulation of fiscal policy is particularly important at this point.

Another issue related to tax ethics in the business world is tax havens, or countries or jurisdictions that impose low or no tax rates, and their impact on the global economic system is a significant concern in tax ethics. Keeler (2009) believes that tax havens can cause instability in the global economic system. Zucman (2011) argues that tax havens create negative externalities in tax systems, and Picur and Riahi-Belkaoui (2006) suggest that this leads to tax evasion in countries without tax havens and results in reduced public revenues. This is because businesses often declare their economic activity in tax havens where tax rates are low instead of accurately reporting it where it actually takes place.

Modern tax systems strive to minimize direct interaction between taxpayers and tax authorities by implementing straightforward and transparent laws, reducing compliance expenses, introducing straightforward tax reforms, and empowering tax agencies with sufficient enforcement powers and electronic transaction capabilities. This not only eases the burden on taxpayers and fiscal officers but also helps to combat corruption, ensuring that the workforce that is freed up can be redirected towards other fiscal duties. Moreover, promoting tax ethics contributes to enhancing transparency in tax systems and enables citizens to actively participate in preventing arbitrary practices (Brock, 2015: 191). Linking tax ethics to tax compliance entails defining tax ethics as the behavioral norms that govern the relationship between taxpayers and the state (Song and Yarbrough, 1978: 442), emphasizing the socio-psychological and cultural aspects of taxpayers (Torgler & Schaltegger, 2005: 4).

The fiscal behavior of the business world is shaped not only by the goal of profit maximization, but also by the stability of fiscal policies implemented by the government and the establishment of a social consensus regarding the principal-agent-ethical intersection.

Blommestein (2006: 56) argues that ethical analysis is currently excluded from orthodox analytical models that study economics through nonnormative ethical theories because they are difficult to incorporate mathematically. However, ethical discussions deserve greater consideration as many key situations and issues require inclusion of social norms, personal values, fairness, and other moral standards. Ethical deviations and greed have been at the center of recent business scandals such as Enron, Parmalat, Tyco, and WorldCom. Also, ethical concepts such as justice, honesty, and frugality are essential to the explanation of the creation of wealth by nations.

Ethics as a Fiscal Principle

In practical terms, money refers to the purchasing power that allows objects and property rights to be exchanged and has the power to direct economic transactions – it allows for perfect exchange, easy transfer, and instant transactions. As opposed to money, finance is related to time, and instead of transactions, it creates connections and mutually binding relationships. Finance speeds up the circulation of money and allows people with a surplus of cash to put money back into the financial system, both on a temporary basis and on demand. Finance is an extension and complement to money as it secures long-term transactions. Even today, the clear conceptual boundary between money and finance has become blurred due to the growing importance of fiscal intermediation. It has become impossible to distinguish between liquid financial assets represented by coins or banknotes, bonds, or a derivative contract. As an important consequence of this blurring, the boundaries between the responsibilities of the public sector and the private sector dealing with finance have become increasingly vague (Dembinski & Bonvin, 2006: 240-241). Such uncertainty has highlighted the problem of which actor is going to make or direct the monetary and fiscal policies at the national or global level. In addition to being a fiscal issue, this question is also an ethical one in terms of the objectives pursued by the party in charge of public policies. The relationship between the government as the agent and the citizens as the principal has been weakened due to the obscured representation of the citizens, who are supposed to have their interests protected by the government, to whom the budget has been transferred. In other words, the principle of accountability and the bond between the principal (citizens) and the agent (government) have been weakened by the lack of transparency and clarity in how the government represents and protects the interests of citizens to whom the budget has been allocated. This has resulted in a blurred accountability principle, which further undermines the bond between the principal and the agent.

Value judgments play a crucial role in shaping the institutional structure of the economy and the policies that govern it. The neutrality of policy instruments means that the use of different instruments can have varying long-term effects on the structure and functioning of the economic system. Furthermore, what may be considered an objective in one context may become an instrument at another level. For instance, certain political attitudes or regulatory policies may be pursued as means to achieve ultimate goals of fairness or equality in the distribution of income or wealth, despite differing views about collectivist versus free market economic systems. In such cases, the ends cannot be seen as individually value-laden, and the means cannot be seen as entirely value-free or neutral (Vickers, 1997: 68- 69).

Meanwhile, the household is weakened not only economically but also morally because of the ethical shortcomings of the public sector, according to Goldscheid (1958: 210), who argues that the ethical understanding of individuals is determined by the public sector. In this sense, the cause of ethical problems such as tax evasion must be sought not only in society but also in the organization and ethical failings of the public sector.

Contrary to what is said about economic theory, economic policy is more concrete and intertwined with real life. It is through these real-life situations that ethical criteria are assessed. The principles of taxation contain ethical criteria, for example, in the relationship between taxation and ethics. The principles of *neutrality*, *efficiency*, *fairness*, and *simplicity* proposed by A. Smith (1791) and accepted in the tax literature as the basic principles of taxation, can also be viewed as ethical principles (Alley & Bentley, 2005: 586). The principle of *neutrality* in taxation is based on the protection of market values. *Efficiency* concerns the ethical implications of intervening in private sector activities. The principle of *fairness* is based on collecting taxes according to the taxpayer's ability to pay. Finally, *simplicity* describes the relationship between individual taxpayers and tax compliance, stating that compliance and transaction costs in taxation should be low. These objective economic criteria therefore include ethical values (Groenewegen, 1996: 4). If these principles are in place, it is likely that ethical problems such as tax evasion and corruption will be at a minimum. There are at least two ways in which ethics is important for a tax structure. First, because economists study the choices or decisions made by individuals. Second, it is important in exploring what factor motivates individuals' choices. Economists have often assumed that self-interest is the only motivator that guides people's rational choices. Rational choice is assumed to be the choice that best supports an individual's self-interest. It is unrealistic to assume that ethical considerations never influence people's choices, even though individual choices are often driven by self-interest. It also makes little sense to associate rational choice with the choice that supports only one's own interests, as opposed to the individual's ethical goals. In that sense, ethics has a very different place in economics. Broadly speaking, the purpose of public policies, including those that deal specifically with economic issues, is to promote social welfare. Inevitably, the question of what constitutes the welfare of individuals comes to the fore in this context, since the question of what is good and bad for society is inextricably linked to the concept of the welfare of the individuals who make up society. These are just a few examples of the issues that are under discussion in welfare economics, which is the normative branch of economics (Pandit, 2016: 2-4). But this traditional philosophy presupposes a fundamental harmony between private and public interests, as well as conflicts over the priorities of economic, social, and political goals. The invisible hand of the market is not an adequate tool for the just resolution of social value conflicts. This is because purchasing power, not moral reasoning, determines the socio-economic consequences of the market mechanism. Moreover, the market system does not exist for its own sake; it should operate within the basic norms and rules of a free and democratic society and serve that society. The freedom of trade, for example, is not a natural right of the economy, rather it is based on the moral and legal structure of society. Accordingly, business depends on its public legitimacy and acceptance. Without responsibility and accountability to society, the concept of the free enterprise system would not be effective (Ulrich, 1995: 2-3).

Financial Crises, Technocracy and Symbol Manipulation

According to Thaler and Sunstein (2018), errors in decision-making are often caused by factors such as excessive trust in politicians, unrealistic optimism, a bias towards the status quo, and the consideration of potential gains and losses in economic decision-making (Eğri, 2021: 193). Besides, citizens often do not simply accept laws, taxes, and regulations as they are, but instead lobby for changes that are advantageous to their own interests, either individually or as part of interest groups. Economists refer to the financial support provided by these groups to politicians and bureaucrats as rent-seeking. The more extensive and detailed a government's influence and control, the greater the amount of rent-seeking activity. Important but difficult to study, rent-seeking and corruption have thus become major problems in many countries (Little, 2002: x-xv). Corruption damages democracies and public opinion, and is a major institutional and fiscal problem around the world. It privileges the role of the elite in the political decision-making process at the expense of the majority in the public interest. Corruption discriminates against the interests of the poor, particularly against those who have little power to influence the decisions of the government. Global corruption also includes the corruption of political elites who use their official positions, their connections, and their networks to remain in power and to enrich themselves illegally at the expense of the majority of the population. It can also be found at lower levels of the political and bureaucratic system. But globalization is an institutional phenomenon. Corrupt and opaque policies also foster global corruption. In the same way, political parties that develop similar tendencies also run counter to the transparent and inclusive nature of deliberative democracy. In the global capitalist era, corruption intensifies alienation and social violence, creating tendencies that endanger global democracy (Rehren, 2016: 182). In this vein, ethical problems such as corruption that arise from institutional weaknesses become not only a national but also a global problem because corruption can have far-reaching consequences that extend beyond the borders of a single country.

This weakness in the institutional structure is also caused by the private sector. In the analysis of the institutional structure, the analysis of society, government, and other stakeholders with complex statistical expressions and the presentation of reports have also raised the question of whether mathematics is used within ethical limits. While qualitative arguments are becoming less important, quantitative analysis is becoming more prevalent. The existence of such a problem has become particularly evident with the global financial crisis of 2008. Put differently, the 2008 crisis emerged as an ethical problem because the manipulation of financial transactions was hidden behind mathematics. While mathematics has been associated with the elimination of ethical problems, especially in the 13th century, the idea that normative values are hidden by contemporary financial mathematics has become widespread. The problem for a capitalist system is that capitalism sets prices by social consensus. But distorting or concealing the price structure would be unethical because they would distort this consensus (Johnson, 2017: 1-3), and looking at the causes of a financial crisis at an atomic level only provides partial solutions – it will only remain a historical narrative if we do not examine the flawed logic that constitutes financial systems. In this regard, deregulation has been a major cause of financial crisis, wherein ethical principles have been transferred from the public sphere to the private sphere, and thus the ethical principles of the public interest have been deregulated (Smith, 2010: 2-3; Williams & Elliott, 2010: 150). The evaluation of financial crises is assigned to technical rationality (technocracy), which is seen as a supra-politically neutral field. Political responsibility is thus transferred to technocrats, and any problem that arises under their control simply remains a "technical error". The technical expertise and language that are unique to a specific field, such as mathematics or science, differ from the language and perception of social will in politics. However, this technical perception and language are crucial in the political arena where social will is put into action (Gürkan & Karahanoğulları, 2010: 561). This makes the fiscal responsibility in the context of the principal-agent relationship subject to technical authority and disables the ethical part of the issue. As a result, the citizens are the representatives of the theoretical type of consumer, namely the *homo statisticus*.

In the wake of the Washington Consensus, public finance and government administration have been exempt from public ethics. Societies have thus become formula variables and experts have become symbol manipulators, as Reich (1991: 177) puts it. The social and economic meanings and consequences of facts tend to be obscured by the dominance of numbers, now made virtual by information technology. Thus, financial calculations risk altering reality to favor numbers that can only be manipulated arithmetically. Numbers hide problems and gaps and assume an ideal world where everything is perfectly divisible and perfectly interchangeable (Dembinski & Cook, 2017: 1-3). Social welfare theory is one of the positive economic theories that are independent of normative values, although it is a hybrid moral theory that is partially exempt from the neoclassical understanding of finance. In this framework, social welfare theory incorporates elements of justice-based moral theories in order to achieve 'Pareto Optimality' (Roth, 2002: 17). Even if the Pareto principle itself is not a moral principle, and even if one can distinguish between arguments based on efficiency and those based on morality, it is still vital to decide how much weight to give to the fact that a particular social arrangement is satisfying to an individual. Assessing these efficiency criteria is not a morally neutral decision. (Buchanan, 1985: 10-11). A case in point is the subjective value theory applied to public finance by the Austrian marginalist economist Emil Sax (1958: 177). According to Wicksell (1958: 80), Sax applied the idea of marginal utility and value not only to the distribution of taxes but also to the amount of taxes. In doing so, he transformed the problem of tax justice from an ethical to a purely economic one.

Fiscal Policy and Ethical Ideals

Ethical values also shape the budgeting and regulatory processes. Politicians and bureaucrats make decisions based on explicit or implicit ethical values that are implicit in or determined by their political ideologies, in addition to their political ideologies. In practice, these decisions are also influenced and shaped by pressure and interest groups. Moreover, ethical standards are usually incorporated into anti-corruption legislation. According to Hoexter (2013), such a standard is demanded by the electorate. Politicians explain their ethical ideals and commitments in the disclosure of fiscal policies in fiscal plans or during their implementation, in the justification of budget decisions and in the budget process. Fiscal policy appears as a component of the ethical values of the public sector in this context. Qualitative and quantitative choices intersect when the content of fiscal policy is approved. The reason I voted for party *X* in qualitative elections is because of its social policies; social policies are for the good of society. The proposition that a budget of 2% of GDP for the poor in country *Y* will not have a significant impact on the budget is an example of a quantitative election. Therefore, the ethical standard of fiscal policy in society is formed at a point where qualitative (good, beneficial) choices and quantitative (budget, benefit-cost analysis) choices intersect. In fact, the budget is a vehicle for the realization of ethical ideals as well as concrete goals such as fiscal policy. Here, fiat money allows politicians to focus their budgetary decisions on the future effects of those decisions on society and the economy, rather than on the arbitrary relationship between taxes collected and expenditures. Another obvious way in which the ethical orientation of political leaders shapes monetary value is through government funding of public goods such as defense, justice, infrastructure spending, education, and cultural institutions. Consequently, we can speak of a twofold ethics of fiscal policy, (i) an ethical commitment to the state in terms of ensuring the integrity of society, and (ii) an ethical commitment to future generations. Fiscal policy is not only a manifestation of public goods and services and regulatory bodies. It is also an additional political tool for preserving ethical values that are disappearing due to lack of financial resources. One of the consequences of this is that the ethical values of a society will be at stake in the fight against poverty. Another consequence is that these ethical fiscal policies will create demand in the private sector and thus cause a transfer of wealth to the private sector. Taxes are another way for politicians to pursue ethical fiscal policies. When sin taxes are imposed on products that are considered socially or environmentally harmful, their consumption is reduced. By demonstrating the government's subjective value, this creates a social (objective) evil. For example, by imposing additional taxes (sin taxes) and changing society's consumption patterns, a government that believes alcohol is a bad thing sends the message that it is a socially unacceptable thing. The state translates its ethical preferences into prices and wages by means of policies. On the other hand, legal, financial, and administrative regulations can also be evaluated within the scope of rule-based (deontological) ethics. Beyond the fact that public regulations are an economic activity, the government's regulatory oversight function also shapes the private sector's ethical perception.

Taxation structure and rates are closely linked to fiscal policy, and both revenue and expenditure policies can be used to achieve planned redistributive goals. Various techniques are employed to create income structures, such as a progressive tax rate system, family and child support exemptions, tax incentives for savings and retirement, and housing construction and financing. Moreover, choices made about the allocation of the overall tax burden among income, corporate, and consumption taxes have implicit effects on wealth distribution. In addition to equity and tax burden sharing, technical issues also impact the ethical considerations in these areas. As Vickers (1997: 151-152) argues, the tax burden for non-commodity goods may be influenced by market elasticities of supply and demand, and the question of whether taxes are passed on to consumers can be a contentious issue. It is generally advisable to avoid taxes that disproportionately impact lower-income individuals.

Conclusion

The study suggests that there are several insights to be drawn about the interplay between fiscal policies and ethics. Firstly, there appears to be an implicit or explicit ethical dimension in the theories put forth in the public finance literature. Secondly, the ethical implications of fiscal policies are commonly examined in areas like tax psychology and tax culture. Public choice theory (Mueller, 2003: 1-3), which falls within the realm of political science, also sheds light on the relationship between individual behavior and state policies (Buchanan, 1984: 12), thereby providing a framework for understanding the link between fiscal policies and ethics. As with market failure, state failure can also occur, in which policies do not align with the utility maximization of policymakers, but instead prioritize the profit maximization of pressure and interest groups or the budget maximization of the bureaucracy (Butler, 2012: 15). It follows that fiscal policy will be determined by maximizing the votes of politicians. This avoids the ethical point of intersection (balance point) between society and the state. Thirdly, fiscal discipline plays a key role in the development of ethical principles in fiscal policy (Bernier, 2012: 115). Indeed, according to Brennan and Buchanan (1985: 150), democratic societies destroy themselves, perhaps slowly but surely, unless the rules of the political game change and people gain awareness that something other than ordinary politics is needed. Otherwise, societies will only expect a solution from politics and will not be able to explain their preferences. It is precisely this emphasis on ethics that explains the phenomenon of fiscal discipline in the theory of finance. According to Kumar and Ter-Minassian (2007: 3), the maintenance of fiscal discipline is essential for the preservation of macroeconomic stability, the reduction of fiscal vulnerabilities and the improvement of the overall performance of the economy. It is particularly important if countries are to be successful in the face of the challenges and reap the benefits of economic and financial globalization. Fiscal discipline is essential to enable countries to seize the opportunities offered by increasingly free trade and open capital markets and to improve their long-term economic prospects. Moreover, Alesina and Perotti (1996: 402) argue that the principle of balanced budgets as an indicator of fiscal discipline eliminates arbitrary practices, opportunism by politicians, and political short-sightedness. Fiscal rules are therefore the tools of fiscal discipline, even though fiscal discipline is an ethical goal. Fourthly, once it is accepted that fiscal rules consist of rules on revenues, expenditures and borrowing, it becomes clear that the above-mentioned fiscal policies are at the heart of the relationship between ethics. These ethical principles (fiscal rules) are subject to audit, reporting and even rating by global regulators. This is done for investors who will invest in the country and for countries that will lend money, for example, and is considered an indicator of financial prestige. Such scores and reports also constitute a global ethical control mechanism (like a panopticon). Fifthly, the study notes that social ethics is a point of balancing between society and policymakers, but it can be at a false balance point due to asymmetric information. Thus, when social ethics is considered as a democratic phenomenon, it has a positive connotation; it can also have a negative meaning as a result of erroneous perception. Thus, ethical norms that are based on social consensus are likely to fail. In this respect, the asymmetric ethical problem can at least be reduced by the accurate and stable transfer of information, which is a global public good. Finally, the public sector uses fiscal policy to distribute resources according to its ethical preferences. A manifestation of these ethical preferences is the proportional distribution of expenditure items in the budget. The budget has a lasting impact on future generations and thus an important tool for the public sector to distribute resources according to ethical preferences. Therefore, ethics can be considered as a fiscal rule, and it is essential that the budget be subject to limits in order to ensure ethical distribution of resources.

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