



WIDENING INCOME INEQUALITY IN THE LAST DECADES: TURKISH CASE

DOI: 10.17261/Pressacademia.2019.1059

PAP- V.9-2019(6)-p.24-28

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To cite this document

Ar, K.N., Kines, M.B.,(2019). Widening income inequality in the last decades : Turkish case. PressAcademia Procedia (PAP), V.9, p.24-28

Permenant link to this document: <http://doi.org/10.17261/Pressacademia.2019.1059>

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ABSTRACT

Purpose- This research proposes some mechanisms to improve income inequality for Turkish Economy.

Methodology- Income inequality is concerned with how total income is distributed between individuals, households or other demographic groups, which is also called personal income distribution. According to various international reports and studies, income inequality has been rising in a number of countries in recent years and has been a growing concern in academic world. Income equality has various aspects and many contributing factors. Transfers and benefits are the most important factors contributing to reducing inequality, but these alone cannot address the issue of rising inequalities in countries where unemployment continues to be high, which requires intervention in the labour markets. There are a variety of methods of measuring income inequality but this paper will focus on the most popular measure, Gini index, which ranges 0 (perfect equality) and 1 (perfect inequality). In this respect, Turkey will be taken as a case to review. In this study; based on literature review, especially by the means of some mechanisms, some theoretical findings and solutions are proposed for The Turkish economy.

Findings- The three main disruptive factors which deteriorate income equality can be listed as inflation, unemployment and real wages. The most effective methods are to strengthen the consciousness of the employees, trade unions, public opinion, media, nongovernmental organisations and all parties' concerned (social awareness).

Conclusion- After the weakening of social state structures and the role of public influence in economies, the income and wealth distribution shows a significant unfair trend for labour and the lower layers of societies. When Turkey is taken into account, the economic and social parameters show a big negative gap while comparing the EU and advanced countries. To rectify the income inequality problems requires international and national socio-economic measures.

Keywords: Income inequality, unemployment, deregulation, Turkish economy, economical policies.

JEL Codes: J3, J5, J8

1. INTRODUCTION

Globalization has enormous scope to include economics, politics, security, health, social, cultural and environmental issues. Globalization involves not only benefits, but also conflicting interests. This could lead to conflicts of various types at regional, national or international level. One such cost or problem concerns who gains from its potential benefits. There can be substantial inequity in the distribution of the gains from globalization among individuals, impacting individuals, organizations, nations, and regions. Indeed, many of the gains have been going to the rich nations or individuals, creating greater inequalities and leading to potential conflicts nationally and internationally (Ar, 2007; 240-258, Intriligator, 2003; 8). For instance the inequality ratio between the richest and poorest countries grew from 1/11 in 1913 to 1/44 in 70s, to 1/ 94.3 in 2005 (UN,2005;45).

A second problem generated by globalization is that of major potential regional or global instabilities stemming from the interdependencies of economies on a worldwide basis. There is the possibility that local economic fluctuations or crises in one nation could have regional or even global impacts (Intriligator; 10). An example of this is the "US mortgage crisis" and the "Lehman bankruptcy of 2008" that had global impact. However national policy and technological trends are as important determinants of employment as globalization. The other potential impact of globalization is a diminishing social state and the emergence of complex and interdependent processes over which the state has no control. As proven over time, the recycling economic and financial crisis cannot be prevented by globalization.

In the light of this information, the objective of this study is to proposes some mechanisms to improve income inequality for Turkish Economy. The remainder of this study is organized as follows: "Section 2" provides the literature review. "Section 3" presents the contribution and finally "Section 4" includes the conclusion with the references following.

2. LITERATURE REVIEW

Income inequality is concerned with how total income is distributed between individuals, households or other demographic groups. The new capitalist ideology called "globalization" has been in control of the global economy and affairs. "Inclusive globalization must be built on the great enabling force of the market, but market forces alone will not achieve it. It requires a broader effort to create a shared future, based upon our common humanity in all its diversity" (UN, 2000; 20). There can be substantial inequality in the distribution of the gains from globalization among individuals, impacting individuals, organizations, nations, and regions. For instance, the inequality ratio between the richest and poorest countries grew from 1/11 in 1913 to 1/44 in 70s, to 1/ 94 in 2005 (UN,2005; 45).

"Economic inequality is widespread and to some extent inevitable. It is our belief, however, that if rising inequality is not properly monitored and addressed, it can lead to various sorts of political, economic, and social catastrophes." (The World Inequality Executive Summary Report, 2018; 4). Globalization involves not only benefits, but also conflicting interests. This could lead to conflicts of various types at regional, national or international level. One such cost or problem concerns who gains from its potential benefits. Indeed, many of the gains have been going to the rich nations or individuals, creating greater inequalities and leading to potential conflicts nationally and internationally (Ar, 2007; 240-258).

Recent evidence also shows that various indicators of the new economy expand inequality in advanced industrial societies (Kwon and Roberts, 2015; 442). A deepening of the financial integration would reduce the income inequality in developed countries but increase the inequality in developing countries. These results suggest that income inequality of developing countries would deteriorate with an imprudent dependence on foreign financing or a rapid opening up of their financial markets to foreign investors (Baek and Shi, 2016; 55).

In addition to the other factors mentioned above; labour force does receive a very unfair share from the total production (G-20 Income Inequality Report, 2015; 6). It is examined the real wage increase received by labour is far below the productivity generated by working classes. The unjust distribution of production values is also an important factor for unfair income distribution. Moreover, it is depicted that average wage growth has lagged behind average labour productivity in 36 developed economies (ILO Global Wage Database).

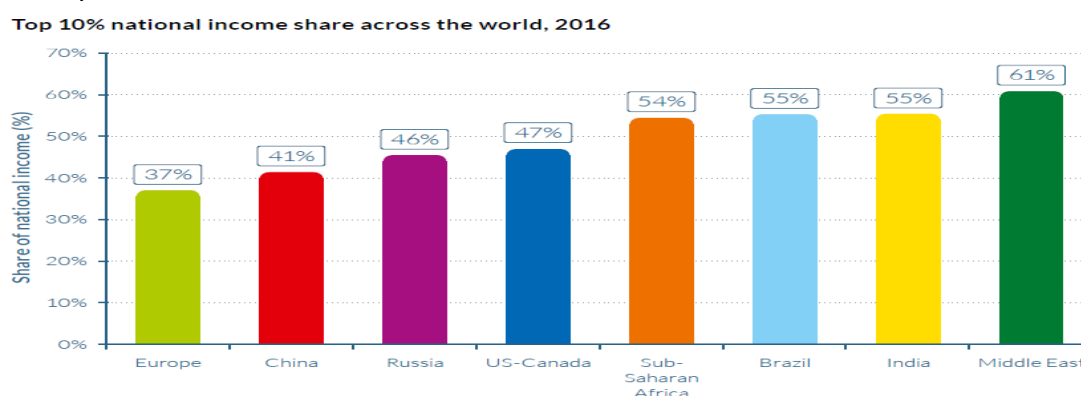
The socio-economic balance between labour and capital is utmost important for the social stability. In labour and capital competition, the power of labour can be achieved through an organized labour force. These organizations are called "unions" for many decades and they are the essential mechanisms in order to protect the rights of labourers. In 1960s, and in 1970s unions were the important organizations which reached considerable political and legal power to maintain and improve their members' rights in the labour markets. However, in our days unions have lost their strength even in countries like Sweden (Eurostat Statistics 2019). For Turkey, the share of lowest 20% has increased from 5.1% to 6.3% and the share of the top 20% has decreased from 48.4% to 47.4% in the period of 2006-2017 (TÜİK). In the G20 as a whole, there is a broad trend toward rising inequality and declining labour income share, although the developments vary across countries. In general, widening income inequality as measured by the Gini index has risen significantly in most advanced G20 countries in terms of both market and disposable income (Income Inequality and Labour Income Share in G20 Countries Report ILO; IMF, WB 2015 p.12)

3. CONTRIBUTION

3.1. The Income Inequality Around the World

Recent international reports consistently indicate that income inequality has increased globally in all regions in recent decades, but at different rates. The fact that inequality level varies from country to country and also among regions. Sometimes this can be observed even in the countries in the similar development levels. The findings highlight the important roles of the national policies and institutions in shaping inequality.

Table 1: Top 10% National Income Share Across the World



When the graphic is evaluated the inequality ratio shows a great variance among the regions/countries. According to the figures the national income share inequality problem is very high in both socially and economically underdeveloped regions / countries. The inequality situation peaks in the Middle East and it is 65 % higher than the European region which is the lowest. This disparity is generated due to many varying factors. When they are itemized the lower national education, outdated cultural patterns, lack of informative society specifications,

backwards technological advance can be mentioned as important factors. In addition to that in those countries which the inequality is dominant, it can be said that they are placed in the lower range of Human Development Index lists and look far behind the scientific societies. Also pressing gender discrimination prevails in these countries.

It is also examined that the real wage increase received by labour is far below the productivity generated by working classes. The unjust distribution of production values is also an important factor for unfair income distribution.

After the Second World War, the collective bargaining system had flourished and labour share in national wealth developed. Nevertheless, the monetarist and global capitalist approach dominated the economic systems especially after the collapse of Soviet Union. The income balance between the labour and capital has changed in favour of the latter and the disparity between social classes has enlarged since then. At the beginning of the 90s, the two major planned economy countries were annexed to the global market economy. This raised the inequality in these transition countries. In fact, the wealth distribution inequality extended to all ex socialist countries. The socio-economic balance between labour and capital is utmost important for the social stability. In labour and capital competition, the power of labour can be achieved through an organized labour force. These organizations are called "unions" for many decades and they are the essential mechanisms in order to protect the rights of labourers.

3.2. The Income Inequality in Turkey

To diagnose the income inequality in Turkey, there is a need to examine the TÜİK's statistics database. According to the TÜİK * statistics the lowest 5 percent income slice GNP share in 2006 is 0.8 percent. This ratio has not been changed since then. Nevertheless, the top 5% income slice share in 2006 was 19.8 percent. This ratio has gone up to 21.3 percent in 2017. This means a degradation in lower income layers.

Table 2: Income Slice Shares in Turkey

	Quintiles 20%					
2006 Percentage (%)	100,0	5,1	9,9	14,8	21,9	48,4
2017 Percentage (%)	100,0	6,3	10,7	14,8	20,9	47,4

Source: TÜİK Statistics

In the G20 as a whole, there is a broad trend toward rising inequality and declining labour income share, although the developments vary across countries. In general, widening income inequality as measured by the Gini index has risen significantly in most advanced G20 countries in terms of both market and disposable income. Turkey is facing a sharp decrease in labour share in its economy (Income inequality and labour income share in G20 countries report ILO; IMF, WB 2015 p.12).

The median income in OECD member is roughly 25000 US dollars. Turkey in this picture is situated in the lowest third rank in the graphic after Mexico, Chile and has the same level of Costa Rica (Society at a Glance OECD Social Indicators 2019 p. 75).

3.3. The Contributing Factors

The three main disruptive factors which deteriorate income equality can be listed as inflation, unemployment, real wages and de-unionization.

In 2015, the global unemployment rate stood at 5.8 per cent and total global unemployment increased by over 0.7 million to reach 197.1 million. Trends 2015, global unemployment is still estimated to stand at more than 27 million higher than the pre-crisis level of 2007 (ILO Statistics). The unemployment trend throughout the world is rising since the year 2007. The median is 5.8 percent in 2014 and 2015. In this respect the Turkish unemployment rate is 12 percent and much higher than the world median. Nevertheless, the unemployment figures do not reflect the real facts number of jobless since the calculation of unemployment methods varies from country to country. The main contributing factor which merits to be mentioned is the labour force participation rates (LFPR) which is the lowest -less than 60%- in Turkey while the mean is around 75% in EU (OECD Employment Outlook 2019).

On the other hand, the woman LFPR in Turkey is 38 percent (TÜİK Statistics). This comparison can be interpreted that women in Turkey is largely being excluded from economic activities. The cultural and social prejudice mentality plays an important role in this result. The TÜİK official figures about unemployment calculation do not accepted very reliable by different parties and associations. The unemployment rate in Turkey is calculated from the present labour force figures. However, a vast number of people which are out of Labour force is neglected in these calculations. The other thing which we need to be focused on is youth unemployment. The unemployment trend is much higher than the country median. Nearly one third of young is jobless in Turkey. After reviewing the information, it can be said that if there is a growing unemployment in any country, income equality recovery is out of question.

One of the major component of the income inequality status is the inflation. In this case Turkey has been witnessing a high degree of inflation rate. In recent years, inflation has gained enormous momentum.

Table 3: Turkish Inflation Rates by Years

Year	April	Year	April
2004	7,87	2013	6,13
2008	9,66	2014	9,38
2009	6,13	2015	7,91
2010	10,19	2017	11,87
2011	4,26	2018	10,85
2012	11,14	2019	19,50

Source: TÜİK

Turkey is an example within countries having the highest inflation increase. Turkey ranks the second worst in G20 countries after Argentina (Trading Economies Inflation Rate G 20). It can be clearly observed that Turkey has been under the severe pressure of high inflation. When the 2019 figures are spelt out Turkey's 20% annual inflation rate is 10 times higher than the EU average records. Inflation is one of the major income deteriorating factor and this is accepted by the majority of the economists.

It can be said that one other factor affecting income distribution is the wage inequality. The vast number of Turkish citizens -43%- earn minimum wage for their living (Eurostat Statistics; 2018). The minimum wage purchasing power in Turkey is far beyond the EU countries. The actual minimum wage is 2019 TL. According to the recent trade union survey food poverty income for a four member family is 2029 TL and the poverty limit 6609 TL (<http://www.turkis.org.tr/SUBAT-2019-ACLİK-ve-YOKSULLUK-SINIRI-d188748>). This picture indicates that a very big portion of the population tries to survive under inhumane living conditions. This disparity is also another significant sign of inequality factor.

Finally, it can be said that when official figures are compared with trade union surveys, it is observed that unionisation coverage especially collective bargaining system is very ineffective in Turkey. Beyond that the Turkish statistics are not in harmony with the Eurostat statistics.

4. CONCLUSION

After having the various aspects of the income inequality from international institutions reports, it can be said that the inequality throughout the world has been growing in different rates. The adverse influence of income inequality has been felt more severely in underdeveloped countries.

The World has been witnessing many recycling financial and economic crises for many years and especially in recent decades. The new era is called global world and the global ideology is called "globalization". In this system many problems are international, because the economy and money governing powers are global. In this context all socio-economic problems faced in different parts of world are linked to each other in a large scale. Therefore, problems such as unemployment are a global problem and the remedies should not be left to a single nation or society. The cooperation, coordination, solidarity between governments, international institutions and organizations are not as vigorous as global capital which seeks low wages to make profit at the expense youth or child abuse throughout the World.

The neo-monetarist policies and the capitalist economic models dominated the world economy, the income share balance between labour and capital has changed dramatically in favour of capital. Especially, after the weakening of social state structures and the role of public influence in economies the income and wealth distribution shows a significant unfair trend for labour and the lower layers of societies. The social protectionist policies and legal systems have lost their support and due to that the labour cohesion and solidarity have been separated from the social ground.

The three main disruptive factors which deteriorate income equality can be listed as inflation, unemployment and real wages. Taken as a whole, the inequality ratios vary from region to region in the world such as the regions like Middle East looks the worst in this picture.

When Turkey is taken into account, the economic and social parameters show a big negative gap while comparing the EU and advanced countries.

In this paper, it is emphasized that to rectify the income inequality problems requires international and national socio-economic measures. Commercial advantages and more profit making efforts should not replace the expenditure which has to be allocated for the safety of the employees. As a relevant issue, political corruption must be stopped.

Finally, it may be concluded that the most effective methods are to strengthen the consciousness of the employees, trade unions, public opinion, media, nongovernmental organisations and all parties' concerned (social awareness).

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