

# INCOME INEQUALITY: A STUDY OF THE TOP INCOME GROUPS IN TURKEY



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## ABSTRACT

Income inequality leads to a wide variety of social and economic problems. There has been a marked revival of interest in the study of the distribution of top incomes which represent a small share of the population but a very significant share of total income. The aim of this paper is to highlight that the highest top income subgroup(s) contributes most to the inequality in the distribution of total income in Turkey. The methodology is empirical which is based mainly on the household income and consumption surveys of Turkstat. Since policy matters in addressing inequalities, it is hoped that this study might contribute to the design of policies which could diminish inequalities in Turkey and elsewhere.

**Keywords:** Income Distribution, Inequality, Turkey, Welfare Policy

## GELİR EŞİTSİZLİĞİ: TÜRKİYE'DEKİ ÜST GELİR GRUPLARINA YÖNELİK BİR ÇALIŞMA

### ÖZ

Gelir eşitsizliği, çeşitli sosyal ve ekonomik sorunlara yol açmaktadır. Nüfusun küçük bir kısmını ancak toplam gelirin önemli bir kısmını oluşturan yüksek gelirler gruplarına yönelik çalışmalar son zamanlarda önem kazanmaktadır. Bu çalışmanın amacı Türkiye'de toplam gelir dağılımı eşitsizliğine en büyük katkıyı yapan gelir gruplarının, yüksek gelir grupları olduğunun gösterilmesidir. Çalışmanın yöntemi ampirik olup Türkstat'ın hanehalkı gelir ve tüketim anketleri verilerine dayanmaktadır. Eşitsizliklerin giderilmesinde politikalar önem taşıdığından dolayı, bu çalışmanın Türkiye ve diğer yerlerdeki

eşitsizlikleri azaltabilecek politikaların oluşturulmasında katkı sağlayabileceği ümit edilmektedir.

**Anahtar Kelimeler** : Gelir Dağılımı, Eşitsizlik, Türkiye, Refah Politikası

## INTRODUCTION

Income inequality has gained substantial attention recently. This issue has been addressed by the studies of many scholars, researchers, and international organizations, such as the UN, the World Bank, ILO, OECD and IMF.

There is mounting evidence that the share of the top income earners in total income has increased in most OECD countries in the last thirty years, notably in the USA, the UK, and Canada. However, the top income groups in some countries such as Finland, Norway and Sweden that have usually been referred as good examples of low inequality, obtain a bigger share of income, too. This tendency, the widening gap between the rich and the poor, can also be traced in Turkey, though a slight decrease in overall income inequality is witnessed.

In OECD countries today, the average income of the richest 10 percent of the population is about nine times that of the poorest 10 percent- a ratio of 9 to 1. However, the ratio varies widely from one country to another. It is 10 to 1 in Italy, Japan, Korea, and the United Kingdom; around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile. Income earners in the top 10 percent have been leaving the middle earners behind more rapidly than the lowest earners have been drifting away from the middle (OECD, 2011).

It is evident that incomes become more concentrated, tilting towards the richest of the rich within the top income groups. A group defined as 'globally rich' earns more than twenty times the mean world income (Atkinson, Piketty, and Saez, 2011).

Even after the Great Recession 2008, the top income groups recovered much more quickly than the lower income groups. It has been pointed out that the top 1 percent incomes in the United States grew by 31.4 percent while bottom 99 percent incomes grew only by 0.4 percent from 2009 to 2012. Hence, the top 1 percent captured 95 percent of the income gains in the first three years of the recovery. In sum, top 1 percent incomes are close to full recovery while bottom 99 percent incomes have hardly started to recover (Saez, 2013).

There is a vast number of literature about inequalities based on incomes, jobs, occupations, gender, regions, generations, size of the households, education, and so forth. In many studies, the growing gap between the lowest and the top income groups have often been emphasized. The focus of this paper is however on the disparities within the top income group, which could highlight the income inequalities in Turkey more strongly.

The paper tries to find some answers to the following questions. How fast does the income of the top income groups increase? Why is the average income much greater than the median income in the higher income groups? Is the top twenty percent or the top ten percent income group homogenous in income shares? How rapid is the increase in the highest top incomes when the top ten percent group is divided into top two five percent groups?

It has been presumed in this study that there is a big gap within the top highest income groups. The objective of this paper is to highlight the income concentration in the top highest income group, that makes the rich richer and leave the others not richer or even poorer in Turkey. In the analysis of the top income groups, it has been found that the incomes of the top highest income group are almost twice of the incomes of the top next lower income groups in Turkey. The increase of the income of the highest top income group is also the most rapid. The focus on just the top income groups constitute the particular contribution of this paper.

In the paper, income groups of twenty percent, ten percent, and five percent have been used for the analysis. The data are from the Disposable Income Survey and the Household Consumption Survey of the Turkish Statistical Institute (TurkStat). The methodology of the study is empirical which permits the analysis of distribution of income among the highest income groups in Turkey through 2006-2013.

This study includes some shortcomings because of insufficient data. The authors of this study couldn't obtain the data for the one percent income group which would stress the income disparity among the highest top income group more explicitly. Due to inadequate data, the results of the analysis need a good deal of care when further interpretations are being made.

The paper proceeds as follows. First, a conceptual and theoretical framework is presented to foster the presumption of the paper and to acknowledge the readers. Then, an analysis of the income distribution among the top income groups has been made in order to find the contribution of the top income groups to the income

inequality. Lastly, an assesment of the analysis and some concluding remarks to reduce or overcome income inequality have been made.

## 1. CONCEPTUAL AND THEORETICAL FRAMEWORK

Inequality of distribution of factors and wealth have been on the agenda of many well-known researchers for centuries. Some inequalities have been accepted as ethically possible due to personal responsibility, yet other inequalities have not been approved and therefore be classified as unjust (Ferreira et al., 2011).

It is put forth by another group of researchers that outcomes valued by all or most members of society and which are often termed as 'advantages', are determined by two types of factors: those for which the individual can be held responsible, and those for which s/he cannot. Inequalities due to the former (which they call efforts) are normatively acceptable, those due to the circumstances are unfair and should be eliminated (Roemer 1993; Brunori et al., 2013). They stress the importance of the term of inequality of opportunity which is the missing link between the concepts of income inequality and social mobility. Thus, an increasing number of researchers have preferred the term of equality/inequality of opportunities (Ramos and Van De Gaer, 2012).

The term 'inequality' was not used extensively in the past decades by some mainstream researchers. The current chairman of the Economic Council of the US expresses that in the mid 1990's he preferred to use the term 'dispersion' instead of inequality. He adds that the rise in income dispersion has gotten to be so high that he now thinks 'inequality' is a more appropriate term (Krueger, 2012).

The causes and effects of inequalities have been studied by an increasing number of scholars and researchers. It has been stated by some researchers that for years the dominant paradigm in macroeconomics ignored inequality, both its role in causing crises and the effect of crises on inequality. It is argued that the latest crisis was preceded by large increases in inequality. The link put forward is clear. High-income individuals save, low-income individuals sustain their consumption through borrowing which might lead to instabilities, even crises (Stiglitz, 2014; Berg and Ostry, 2011). In other words, increasing inequality effectively redistributes income from those with a high marginal propensity to consume to those with a low marginal propensity to consume. This reduces aggregate demand. The route chosen by the United States and by other countries to compensate the low demand was implementing low interest rates and weak

regulations. This led to a bubble, which did sustain consumption for a while. But it was inevitable that the bubble would eventually break. And it was inevitable that when it broke, the economy would go into a downturn. It has been added that issues of inequality and human development, on the one hand, and instability, recessions and recovery, on the other, are intertwined. Inequality is said to be both a cause and consequence of volatility (Stiglitz, 2012).

There is vast amount of literature about the relation of growth or development and inequality of opportunity. It is stated by a well-known academician and researcher that one of the reasons the US economy is not performing is the high level of inequality, which leads to lower growth, a weaker economy, and more instability. This weak economic performance has, in turn, contributed to the increase in inequality. He adds that the IMF has also recognized this vicious circle (Stiglitz, 2014). It has been pointed out in a new IMF paper that inequality can be destructive to growth. In the paper it has been asked whether growth can be sustained in the face of a highly uneven income distribution, whether less inequality can help to increase the duration of growth, whether inequality and unsustainable growth are the two sides of the same coin, or largely unrelated issues. The study shows more inequality seems associated with less sustained growth, and more equality seems associated with sustained growth. It has been added that there is a large and statistically significant association between low income inequality and growth duration. It is stated that inequality is among the variables with the economically strongest effect on predicted spell duration; it is also among the most robust variables, in that it remains statistically significant across samples (Berg and Ostry, 2011).

About the relation between the income inequality and social mobility, it is pointed out that OECD has gone so far as to state that rising income inequality can stifle upward social mobility, making it harder for talented and hard-working people to get the rewards they deserve. It is said that a project has found that there is a strong link between parents' socioeconomic status and their children's outcomes (1). Thus, based on the analytical studies, it has been asserted that rich children tend to become rich adults (Corak, 2006). Intergenerational earnings mobility is low in countries with high inequality, and much income is distributed more evenly. More inequality is associated with less mobility across the generations. This relation is referred as the 'The Great Gatsby Curve' (Corak, 2013). It is stated that increase in the intergenerational persistence of income

due to the increase in inequality is mainly driven by the extreme upper tail of the income distribution (Saez et al, 2014).

There has been a marked revival of interest in the study of the distribution of top incomes. Top incomes represent a small share of the population but a very significant share of total income and total taxes paid. Hence, aggregate economic growth per capita and Gini inequality indexes are sensitive to excluding or including top incomes (Atkinson, Piketty, and Saez, 2011). It is stated that in top income, even within the top 1 percent, there are marked differences.

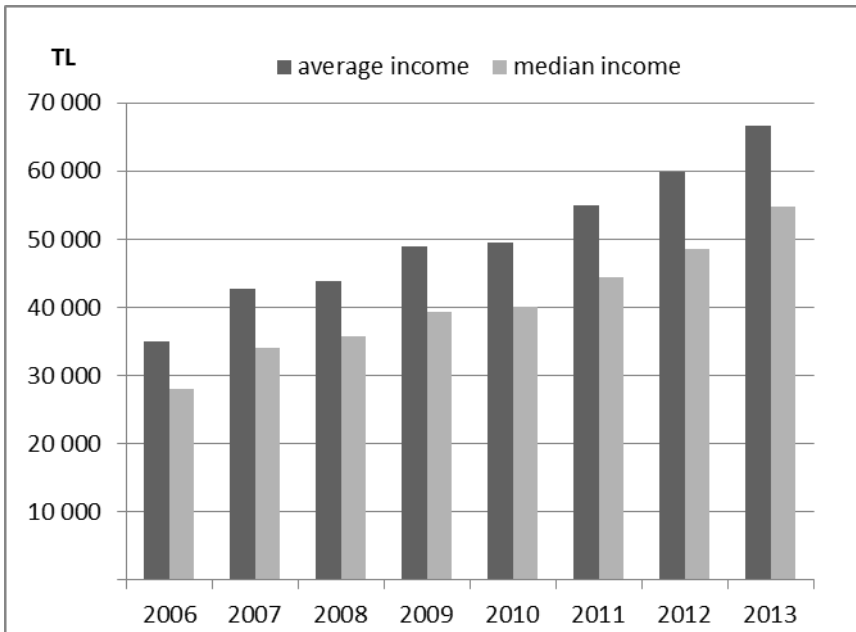
## 2. ANALYSIS OF THE TOP INCOME GROUPS IN TURKEY

In this paper, the top income groups will be studied to show that the incomes are concentrated at the highest top income groups. Thus, the contribution of the top income groups to the income inequality is the most. In the accessible surveys of the TurkStat, the total income is divided into five quintiles (five 20 percent income groups), ten deciles (ten 10 percent income groups), and twenty pentiles (twenty 5 percent income groups). The reference dates for the quintiles and deciles cover the reference years, 2006-2013. For the pentiles, the data are available only for the years, 2002-2005. Unfortunately, data couldn't be obtained for the one percent income groups.

The analysis starts with presenting the household incomes of the top quintile (top 20 percent income group), top two deciles (top two 10 percent income groups), and top four pentiles (top four 5 percent income groups) in Turkey. Some characteristics of the households, such as being in the rural or in the urban, female or male, education levels, and so forth will not be included in the study. Incomes or income shares by employment status, by main jobs and by types of income will be referred briefly in order to underline the inequality issue.

When the household income of the top quintile (20 percent income group) is examined, it is seen that there is an increase in both the average incomes and the median incomes during the reference years, 2006-2013. In eight years the average and the median incomes doubled. In 2006, the average income was 35,093 TL and the median income was 28,054 TL. In 2013, the average income reached to 66,670 TL and the median income reached to 54,738 TL. Despite this increase, average and median incomes stagnated in 2009 and 2010 due to the slow recovery from the crisis of 2008.

The above mentioned increase in income growth in eight years might be beguiling because average incomes are about 21-25 percent higher than the median incomes during the reference years (Figure 1). Higher average incomes mean that 50 percent of the households have higher incomes than the other 50 percent of the same group, which pulls the average income higher than the median income.



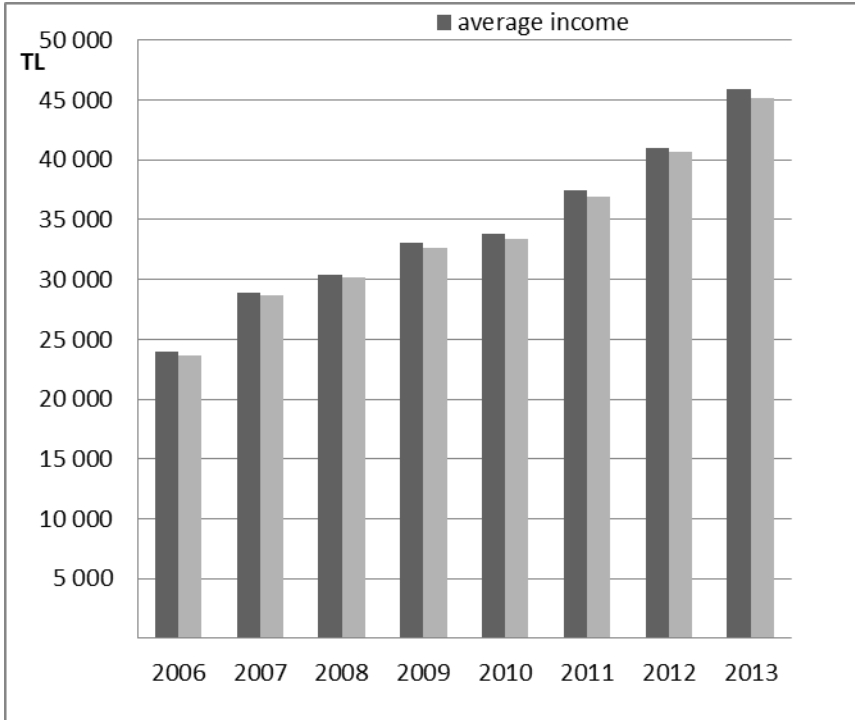
**Figure 1: Disposable average and median household incomes of the top quintile (20 percent income group), 2006-2013**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys.

The above mentioned increase in income growth in eight years might be beguiling because average incomes are about 21-25 percent higher than the median incomes during the reference years (Figure 1). Higher average incomes mean that 50 percent of the households have higher incomes than the other 50 percent of the same group, which pulls the average income higher than the median income.

If the top 20 percent income group is split into two deciles (10 percent income groups), two different traits can be witnessed. The first is a homogenous ninth group with the average and the median incomes quite close to each other. There is almost no difference

between the average and median incomes of the top ninth decile. But when it comes to the top tenth decile, homogeneity of the incomes cannot be seen. Thus, the second characteristic of the top deciles is that the average and median incomes of the top tenth decile diverge considerably which imply that there is income inequality within this group. Figure 2 shows the first trait and Figure 3 displays the second trait of the top two 10 percent groups.



**Figure 2: Disposable average and median household incomes of the top ninth decile (10 percent income group), 2006-2013**

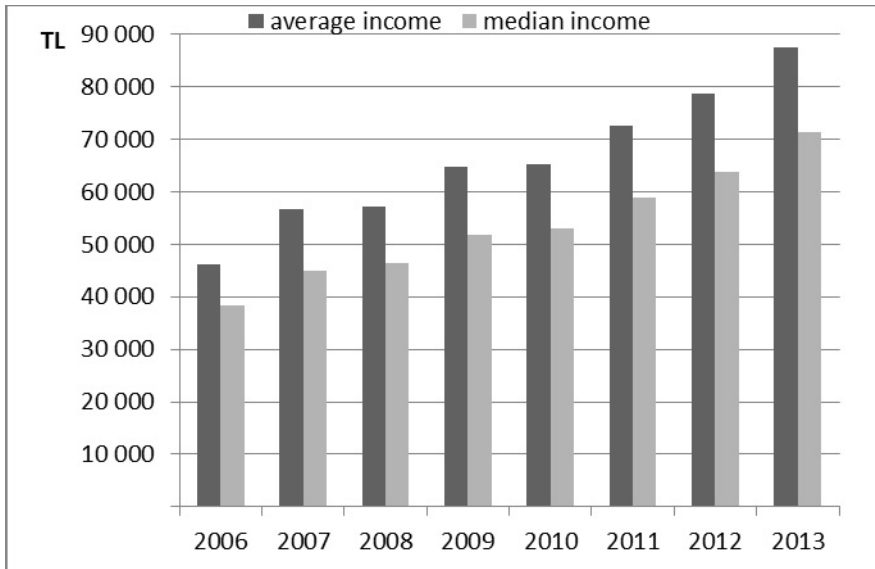
Source: authors' calculation based on TurkStat Income and Consumption Surveys

The average and median incomes of the top ninth doubled in eight years, as did in the average and median incomes of the top 20 percent group. The average income of the top ninth group was 23,923 TL in 2006; and it reached to 45,917 TL in 2013. The median income in 2006 was 23,691 TL; and it went up to 45,174 TL in 2013. The difference between the average income and median income in the ninth decile is quite low. The difference between the average income and the median income of the ninth decile is about 0.01-0.02 percent



during the reference years. This implies that income is evenly distributed within the top ninth 10 percent income group (Figure 2).

In the top tenth decile, a double increase is seen in the average and median incomes in eight years. The average income was 46,271TL in 2006 and it reached to 87,409 TL in 2013. The median income was 38,280 TL in 2006 and it reached to 71,248 TL in 2013. When the average and median incomes of the top tenth decile is examined, it can be seen that the average income is greater than the median income. The gap between the average income and median income of the tenth decile is about 21-25 percent during the reference years. The gap between the average income and median income implies inequality in this top tenth decile. Fifty percent of the households of this group has income more than the other half and therefore pulls the average income up (Figure 3).

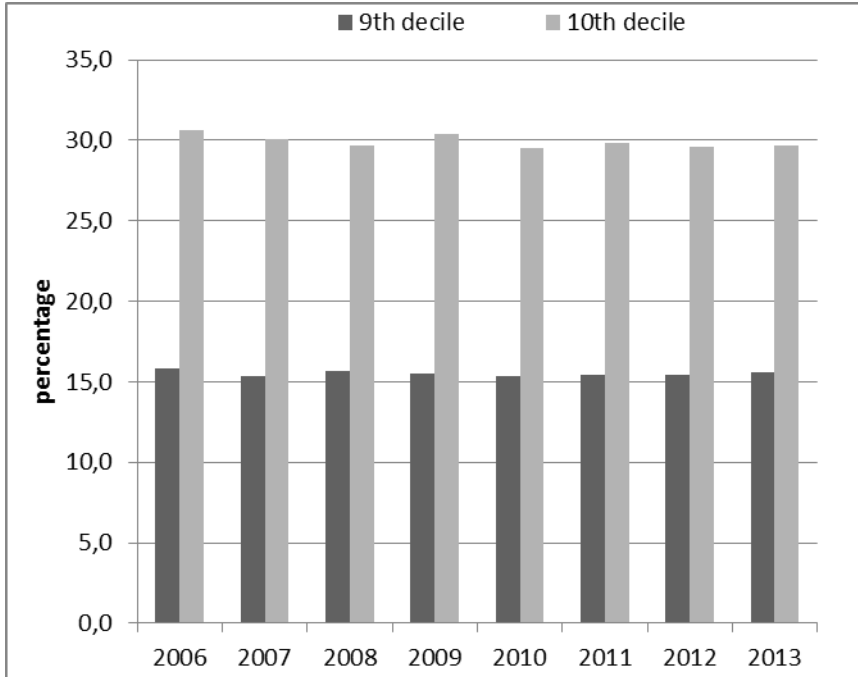


**Figure 3: Disposable average and median household incomes of the top tenth decile (10 percent income group), 2006-2013**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys

When the income shares of the top ninth and tenth deciles are analyzed, it is seen that they do not follow similar trends. The top tenth decile gets an income share of twice of the ninth decile during the reference years 2006-2013. An important matter to mention is that right after the 2008 crisis, in 2009, the share of the top tenth decile

increased from 29.6 to 30.4 percentage. This displays a quick recover of the highest top tenth decile from the crisis. The share of the top ninth decile almost did not change during the reference years. It was 15.9 percent in 2006 and 15.6 in 2013 (Figure 4).

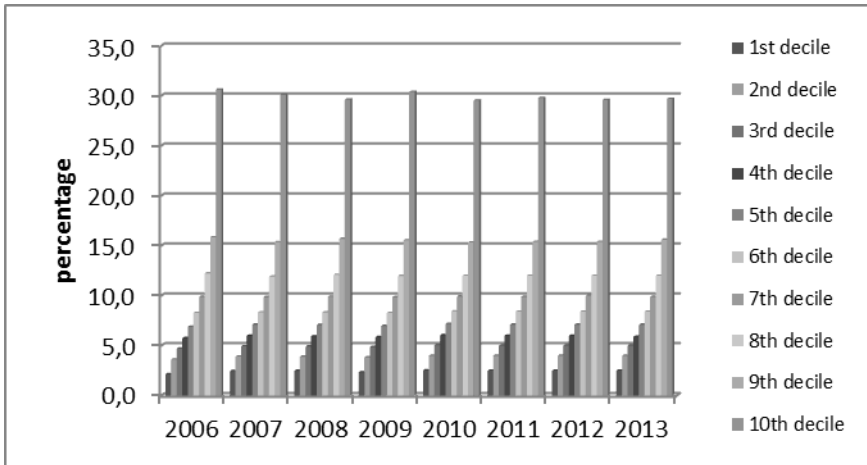


**Figure 4: Shares of income of the top ninth and tenth deciles (10 percent income group) in total income, 2006-2013**

Source: Authors' calculation based on TurkStat Income and Consumption Surveys

When the income shares of the ninth and tenth deciles are taken together, they add up to 46.5 percent, 45.5 percent, 45.3 percent, 46.0 percent, 44.8 percent, 45.2 percent, 45.0 percent, and 45.3 percent during the reference years, 2006-2013. There is a slight decrease in the top income shares with a 1.2 percent in eight years.

When all the deciles are examined together, income growth occurred as below 5 percent for the first three deciles; between 5 and 10 percent for the next four deciles; between 10 and 15 percent for the eighth decile; just a little above the 15 percent for the ninth decile. Finally the tenth decile has about 30 percent income growth during the reference years. The difference of income growth between the top ninth decile and the top tenth decile is twofold (Figure 5).



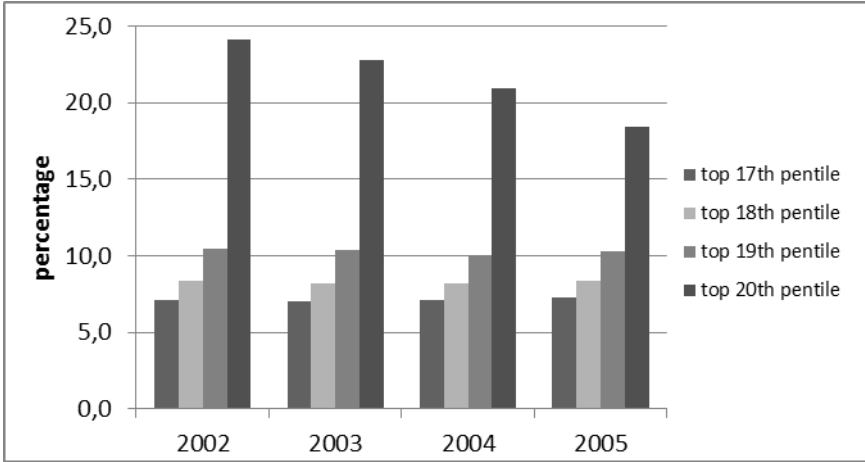
**Figure 5: Income growth of deciles (10 percent income group), 2006-2013**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys

The authors of this paper wished to show the differences and gaps within the top five percent and the top one percent income groups, also. However, disposable household income for the five percent and one percent income groups covering the years of 2006-2013 was not accessible and obtainable from the TurkStat. Hence, the data for the five percent income group were available just for two periods. One is between 2002-2005, the other covers almost the same years, 2003-2005. There is no data after 2005 for the five percent income group. In addition to this deficiency, the average and median incomes of the five percent income group was available only for the last year, 2005.

It can be seen that there is a big difference between the 20th percentile and the other next lower three percentiles. The top twentieth percentile has the highest share of income. During 2002-2005, the income share of the top 17th percentile is 7.1 percent, 7.0 percent, 7.1 percent, and 7.3 percent; the income share of the 18th percentile is 8.4 percent, 8.2 percent, 8.2 percent, and 8.4 percent; the income share of the nineteenth percentile is 10.5 percent, 10.4 percent, 10.0 percent, and 10.3 percent; and finally the income share of the top twentieth percentile is 24.1 percent, 22.8 percent, 20.9 percent, and 18.4 percent. The difference between the shares of the top two percentiles is almost twofold. The total shares of the lower three percentiles are equal to about 25-26 percent. The share of the 20th percentile is almost close to the

sum of the shares of the 17th, 18th and 19th pentiles. The top four pentiles, which is also equal to the top quintile, have a total income share of 44.4 percent in 2005 (Figure 6).



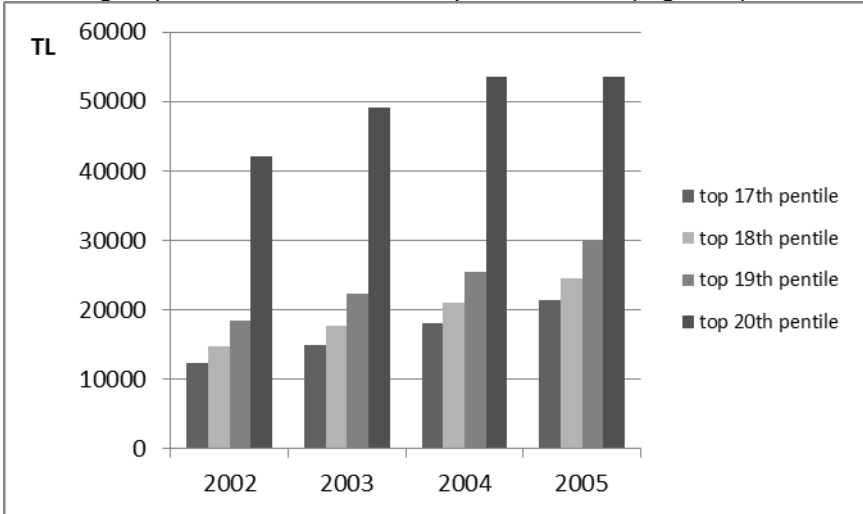
**Figure 6: Income shares of the top four pentiles (5 percent income group) in total income, 2002-2005**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys

The income growth of the top four pentiles from 2002 to 2005 is as follows: 73 percent for the 17th pentile; 67 percent for the 18th pentile; 63 percent for the 19th pentile; and 27 percent for the 20th pentile. In real terms, the top 20th pentile received 53,517 TL in 2005; while the seventeenth pentile received 21,377 TL and the 18th pentile received 24,611 TL. Those two pentiles couldn't even pass the 30,000 TL level. Only the 19th pentile was close to this level, receiving 29,955 TL. Therefore, the top three pentiles were all below the 30,000 TL level. The 20th pentile had an average income of 53,517 TL, almost twice the next lower pentile (Figure 7).

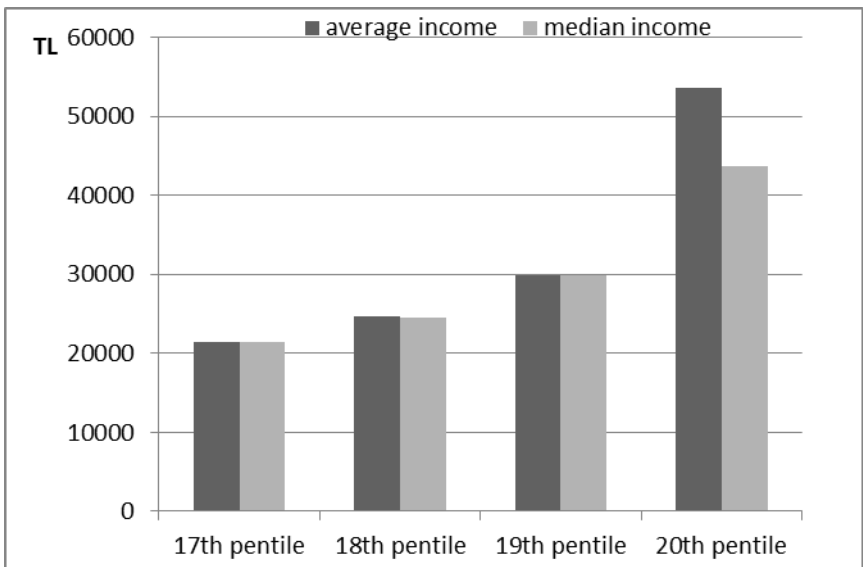
Another important characteristic of the top pentiles is the difference between the average and median incomes for the available last year, 2005. The top seventeenth, eighteenth and nineteenth pentiles have almost no differences between their average and median incomes. But for the top twentieth pentile, there is a big difference in the average and median incomes. The average income of the top twentieth pentile is 53,517 TL and the median income of the same pentile is 43,666. The average income is 23 percent higher than the median income. The gap between the average income and

median income shows that inequality also exists within this top income group as it does within the top tenth decile (Figure 8).



**Figure 7: Average household income of the top four pentiles (5 percent income group), 2002- 2005**

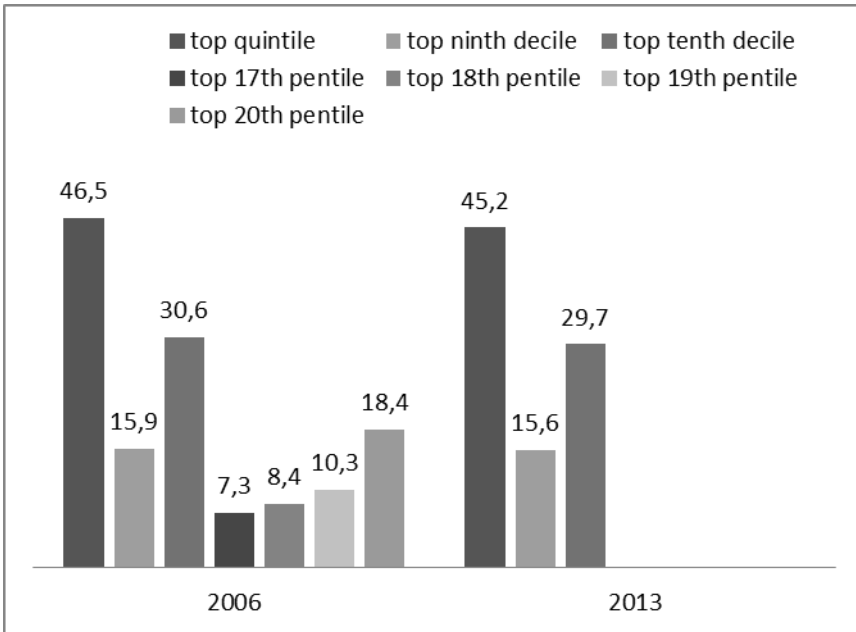
Source: Authors' calculation based on TurkStat Income and Consumption Surveys



**Figure 8: Average and median household incomes of the top four pentiles (5 percent income group), 2005**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys

When all the top income groups (the top quintile, the top ninth and tenth deciles, and the top seventeenth, eighteenth, nineteenth and twentieth pentiles) are examined, it can be seen that the top quintile has an income share of 46.5 percent in 2006 and 45.2 in 2013; the top ninth decile has an income share of 15.9 percent in 2006 and 15.6 percent in 2013; the tenth decile has an income share of 30.6 percent in 2006 and 29.7 percent in 2013; the 17th pentile has an income share of 7.3, the 18th pentile has an income share of 8.4, the 19th pentile has an income share of 10.3; and the 20th pentile has an income share of 18.4 percent in 2005. There is no available data for the pentiles after 2005 (Figure 9).



**Figure 9: Comparison of the income shares of the top income groups**

**Source:** Authors' calculation based on TurkStat Income and Consumption Surveys

The sum of the shares of the top two deciles in 2006 is equal to the income share of the top quintile, which is 46.5 percent. The sum of the shares of the top two deciles (which is 15.6 percent for the ninth decile and 29.7 percent for the tenth decile) in 2013 is equal to 45.3 which is 0.1 percent higher than top quintile. In fact, the sum of the shares of the deciles are equal to the sum of the shares of the

quintiles, but is a slight difference, 0.1 percent, is seen in the sums of those groups. Nevertheless, the main issue is that the 20 percent of the population, namely the top quintile, captures 45.2 percent of the total income and 10 percent of the population, namely the top tenth decile, captures 30 percent of the total income in Turkey.

## 2.1. Assessment of the analysis

There has been a twofold increase in the total income in Turkey during the 2006-2013 period. Turkey's GDP was 758,390 million TL in 2006 and it reached up to 1,561,510 million TL in 2013 (at current prices). In disposable income terms, the income of the top groups doubled by the end of the reference years. On the other hand, there has been a slight decrease in the share of the top income groups during the reference years. This might be due to the improvement in the incomes of the lower income groups.

In the top incomes of each group, two similar characteristic can be seen. The average income of the top income group is much higher than the median income of the relevant group. The highest top income groups captures a much higher income. The income of the top quintile is 66,670 TL and of the top tenth decile is 87,490 TL; and an estimated amount for the top pentile is 96,331 TL in 2013. This clearly shows that the incomes of the highest top groups increase as the relevant groups are divided into subgroups.

In order to estimate the income of the top 20th pentile for the year of 2013, a simple calculation has been made. The growth in the average incomes of the top quintile (35,093 TL in 2006 and 66,670 TL in 2013) and the top tenth decile (46,271 TL in 2006 and 87,409 TL in 2013) have been computed. The result was a 90 percent increase for the top quintile and a 89 percent increase for the top tenth decile. In 2005, one year before the beginning year of the reference years, the average income of the top 20th pentile was 53,517 TL. The two figures, 90 percent and 89 percent, have not been applied but a lower percentage, 80 percent, has been applied to the top 20th pentile, and an income of 96,331 TL is obtained for the top 20th pentile.

The top quintile (20 percent group) has a share of 45,2 percent of the total income. The average income of this top 20 percent group is 21-25 percent more than the median income during the reference years. Therefore it can be deduced that there is an inequality within this top 20 percent income group, which half of the households has a much higher income than the other half.

The top quintile (20 percent income group) consists of two top deciles (10 percent income groups). However, there is no similarity

between the top ninth decile and the top tenth decile. Firstly, the income shares of the top two deciles are not close to each other. During the reference years, 2006-2013, there is a slight decrease in the income shares but nevertheless the share of the top tenth decile is almost twice of the top ninth decile. Secondly, the average income of the top ninth decile is just 0.01-0.02 percent higher than the median income of the top ninth decile during the referred period. But when it comes to the tenth decile, the average income is 21-25 percent higher than the median income of the referred decile. This shows the inequality within the top tenth decile.

The average incomes of the 17th, 18th and 19th percentiles (5 percent income group) are nearly the same as the median incomes. There is very little difference between the average incomes and the median incomes of the top 17th, 18th, and 19th percentiles. This implies that income in these percentiles are evenly distributed. However, the highest twentieth percentile displays a totally different trend. The average income of the twentieth percentile is 23 percent higher than the median income of the twentieth percentile. This indicates that there is inequality within the top highest percentile, too.

In the analysis of the quintiles, deciles, and percentiles, it can be seen that the average incomes are higher than the median incomes which imply an uneven distribution of income within each group. The highest top income earners have pulled much further ahead of everyone else.

*It can be said that as the income groups are divided into subgroups, the lower top income subgroups make almost no contribution to the inequality in the distribution of total income. The highest top income subgroups contribute most to the inequality in the distribution of total income.*

The result that the dominant factor of income inequality in Turkey is due to the inequalities in the subgroups is also put forward by other researchers (Selim, Günçavdı, and Bayar, 2014; Elveren and Galbraith, 2008).

On the other hand, income mobility, in a positive way, is quite low in Turkey. It has been shown that income mobility increases over time but this mobility raises income inequality instead of reducing it (Güven, Dalgıç, and Tansel, 2014). In that study it is stated that nearly half of the income earners (47.48 percent) of 2005 stayed in the lowest 20 percent income group by the end of 2007. The new position of the lowest income earners of 2008 by the end of 2010 was that 48.51 percent of them stayed in the lowest 20 percent income



group. Thus it can be clearly seen that income mobility was not in favour of low income earners. Therefore it can be said that income mobility couldn't contribute to the reduction of income inequality in Turkey (2).

Another issue is the variances in incomes or income shares of individuals by employment status, main jobs, types of income, and functional income. In Turkey, the highest average incomes are captured by the employers (39,632 TL in 2013) according to the employment status. The highest average incomes are received by the legislators, senior officials and managers (26,466 TL in 2011) according to the incomes by main jobs. The highest income share is obtained by the wage and salary earners (51.6 percent in 2013) according to the types of income. According to an analysis of functional income groups, the income of the richest group consists of interest incomes with a share of 45.6 percent and entrepreneurial incomes with a share of 13.3 during 2007-2011. It has been stated that a small number of households fall into the category of interest income and those households obtain other types of incomes as well. They are the richest income group. Thus, the contribution of those two income sources, interest incomes and entrepreneurial incomes, to the income inequality is much higher than the other income sources (Selim, Günçavdı, and Bayar, 2014).

It is underlined that in most countries a significant portion of the gains are due to an increase in wages and salaries. As a result, it is said that the fraction of labor income in the top percentile is much higher today in most countries than earlier in the twentieth century (Atkinson, Piketty, and Saez, 2011). A similar trend is also witnessed in Turkey. How can the wages and salaries constitute half of the income in Turkey? It is an evidence that for many workers, wages are low, and income growth is very slow for a large percentage of income earners, including the middle class. This might be due to the questions in the survey. The employers or capitalists might have regarded themselves as salaried managers.

The issue of 'working rich' has been put forth by some researchers as well. It has been stated that what happened is not so much that the 'working rich' have replaced 'coupon-clipping rentiers' at the top of the economic ladder, but rather that the two groups now appear to co-habitate the top end of the income distribution. They continue to ask whether those with large capital incomes also those with high salaries, accumulating assets over their careers. They assert that if there are separate classes of 'workers' and 'capitalists',

as assumed in classical distribution theories, it would be easier to handle (Saez, 2013; Atkinson, Piketty, and Saez, 2011).

About the quick recover from the crisis, the top income groups did well. To see this recovery, the top 20 percent income group has to be divided into two deciles because actually the incomes of the top fifth quintile (20 percent income group) stagnated in 2009 and 2010. On the other hand, after the 2008 crisis, in 2009, the share of the top tenth decile increased from 29.6 to 30.4 percentage. This displays the quick recover of the highest top tenth decile from the crisis.

About the income growth, though there is a double growth in total incomes, the shares of the income groups almost did not change during the reference years. The top income subgroups had the highest shares of the total income. 20 percent of the population captured 45.2 percent of the total income and 10 percent of the population captured 30 percent of the total income in Turkey. This implies that the poor stayed poor and the rich became richer, if not, did not become poorer.

The results of this analysis indicate that the highest top income subgroups make the greatest impact on income inequality. There is an ongoing income inequality in Turkey which might hamper a sustainable and inclusive economic growth, societal welfare and social peace.

### 3. CONCLUSION

Income inequality leads to a wide variety of social and economic problems. It limits easy access to health, education and housing facilities and other social opportunities; hampers labor and intergenerational income mobility; impedes efforts for unemployment and poverty reduction; creates some socioeconomic traps; increases the vulnerability of disadvantaged groups; eradicates the grounds for sustainable growth and social justice.

These varied impacts can combine to generate social tension, fertile ground for political and civil unrest, instability and heightened human insecurity (UNDP, 2013; Berg and Ostry, 2011). Inequality does not affect only the marginalized social groups, but can be detrimental to growth, stability and well-being in general (UN, 2013). Rising inequality increases social unrest and induces democratization (Acemoglu and Robinson, 2000) .

The researchers who deal with inequalities have proposed suggestions to overcome or reduce inequalities. A report illustrates that growing inequalities can be arrested by integrated policies that

are universal in principle while paying particular attention to the needs of disadvantaged and marginalized populations. It reminds world leaders that, in addressing inequalities, policy matters (UN, 2013). It is underlined that the economy is not a zero-sum game, and restoring more fairness to the economy would be good for all (Krueger, 2012).

It has been emphasized that well-designed progressive taxation can be important in promoting equity. Since the median income is much less than the average income, median income receiver has much to gain from the proposed progressive taxation (Stiglitz, 2012; Berg and Ostry, 2011). It has been highlighted that the intergenerational consequences of the income shares determine the implementation of urgently needed public policy for the upward mobility of those at the bottom (Corak, 2013). Another researcher suggests that the society and the State, as its representative, should aim to provide a level playing field, eliminating, to the extent possible, inequalities due to morally irrelevant circumstances. He adds that a more inclusive growth process should be followed (Ferreira et al., 2011). Many other policies such as powerful unions, corporate provision of health and retirement benefits, promotion of productive employment and decent work, public spending on universal and good quality public services, more formal and institutionalized economic activities, regulated financial activities, registered labour market have been proposed to overcome or reduce inequalities (Saez, 2013; UN, 2013)

People are increasingly becoming averse to the inequalities. A survey shows that high majority of Turkish people either agree or strongly agree that the gap between rich and poor in Turkey should be reduced; and that the State should be strongly involved in reducing the gap between rich and poor (Ferreira, Gignoux, and Aran, 2010).

In addressing inequalities, policy matters. This paper proposes that income inequality should be dealt with appropriate public policies. The issue of income inequality cannot be left to the mechanisms of the market forces because the market itself cannot increase the social welfare of people. It is hoped that this study might contribute to the design of policies which could diminish inequalities in Turkey and elsewhere.

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## Endnotes

- (1) The Economic Mobility Project of the Pew Charitable Trusts, 2013, "Moving On Up," <http://www.pewstates.org>
- (2) Income Mobility of Low Income Earners in Turkey for the three-year periods, 2005-2007 and 2008-2010

### *New position of low income earners of 2005 by 2007, percentage*

low income earners of 2005	who became unemployed by 2007	who stayed at the lowest 20 percent income group	who passed to the second 20 percent income group	who passed to the third and fourth 20 percent income group	who passed to the fifth 20 percent income group
33.34	28.44	47.48	10.83	11.08	2.18

### *New position of low income earners of 2008 by 2010, percentage*

low income earners of 2008	who became unemployed by 2010	who stayed at the lowest 20 percent income group	who passed to the second 20 percent income group	who passed to the third and fourth 20 percent income group	who passed to the fifth 20 percent income group
33.39	30.18	48.51	10.17	9.63	1.51

**Source:** Dalgıç, Güven, and Tansel (2014), pg. 20, Table 4.

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