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Income Inequality in Turkey, 1994-2006: Decomposition of the Change
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Abstract:

The Turkish economy has experienced a major transformation since the 1990s. There has been significant growth in average per capita income. Inequality measures indicate an overall decline in income inequality in the past two decades. The demographic transition has changed the age distribution; the education reform has changed the distribution of educational attainment; the movement out of agriculture and the development of some service sectors has changed the occupational and industrial distribution of households. All of these changes which might have affected income inequality in the country. The aim of this paper is to examine exactly this issue. The question that I ask is the following: To what extent can the change in the distribution of per capita income between 1994 and 2006 be explained by changes in household characteristics, namely the age, education and occupation of the household head and the change in the mean industry income? And, what would the income distribution look like had these factors been changed to their 2006 levels?

To answer this question I employ the semi-parametric approach of DiNardo et al. (1996) and Cameron (2000). I present decompositions in terms of probability density functions and cumulative distribution functions, thereby allowing a more transparent analysis of distributional changes than the traditional method of decomposing opaque summary statistics. My results show that changes in the distribution of age, education and occupation and the changes in the mean industry incomes have had a small effect on the income distribution in Turkey.