

Abstract for “Explaining the Decreasing Wage Inequality Puzzle in Turkey”

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The last four decades have seen an increase in wage inequality across several countries, both from the western industrialised nations and the developing nations. Studies analysing this increase in wage inequality have mostly explained it using the supply-demand approach and attributed the rising inequality to an increase in the relative demand for skilled workers. In contrast to these trends, Turkey in the last one decade has seen a decrease in wage inequality. Accordingly, this paper investigates the driving forces of decreasing wage inequality in this period by looking at the relationship between wage distribution and the educational attainment of the workforce.

The main hypothesis of the paper is that expanding the supply of educated labour, where there is stagnant demand for it, causes the rate of return to education to fall rapidly and decreases wage inequality. Considering the differences in dynamics of wage determination of wages, analyses are performed separately for men and women. After accounting for the bias in selection to wage employment, the key findings of our paper suggests that decreasing wage inequality was mainly due to decreasing returns to human capital or, in other words, decreasing skill premiums and decreasing residual wage dispersion. It is also found that the decrease in residual wage dispersion was mainly due to the decreasing prices of unmeasured human capital. Finally, the effect of changes in the composition of human capital is found to be very small and negligible.