

## Chapter 29

# Lorenz Curve, Gini Coefficient, and the Income Inequality in Turkey in the Last 13 Years

**Sema Bölükbaş**  
*Yıldırım Beyazıt University, Turkey*

### **ABSTRACT**

*Today income inequality and poverty are among highly disputed issues all over the world. It has been well understood that this problem can not be solved only with economic growth. Some social policy implementations conducive to redistribute the national income are essential to create a decrease in social and economic inequalities. This is also true for Turkey. In last decade Turkey has managed high growth rates, budget discipline and improved some basic public services. As a result, absolute poverty rates decreased considerably. Although Turkey's welfare regime is going through a serious transformation process with effect of EU accession process, these policies have not been able to reduce relative poverty rates and income inequalities. Consequently Turkey's last decade is marked by high gini coefficients and income inequalities. It is obvious that there is a great need to develop a welfare regime which is able to establish a fairer income distribution.*

### **INTRODUCTION**

Income inequality and poverty are among the most important problems awaiting a solution in Turkey as well as in the world. In order to realize their goal to attain the life standards in developed countries, developing countries have to distribute the blessings of the economic growth fairly among societal classes and individuals. The most important indicators that show the level of the fairness of this distribution are income distribution and poverty data.

The final aim of economic policies is to increase the level of welfare of all individuals and classes in a society. The most important way to analyse the change in the welfare of individuals and societies is to follow the changes in the statistics of income distribution and poverty. Although the increases in the growth rate and income per capita provide a general opinion about the change in the level of welfare,

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income distribution and poverty are the main indicators that should be taken into consideration in the assessment of the welfare distribution between different social classes and individuals. Even though the problem of income inequality and poverty has been on the agenda of societies all the time, it has had a special importance during the industrial capitalism which emerged after the industrial revolution (Çelik, 2004), after which wages didn't increase as much as profits and even decreased. This made the distribution problem more apparent and pressing leading to enormous social unrest and ideological conflict (Çalışkan, 2010, cited from Aksu, 1993).

After the era in which welfare state is prevalent following the World War II, in 1980's, economic theory dealt with long term economic problems such as growth and capital accumulation, and it was suggested that the problem of poverty and income inequality would be solved automatically with the economic growth. In this process similar tendencies came up in Turkey, too. But the increase of poverty and deterioration of income distribution especially in the developing countries led the problems to be seen as significant as economic problems. Today this issue is among the problems threatening social peace and waiting an urgent solution. To attain the social peace and stability is up to the social policies which reduce poverty, narrow the income gap between the rich and the poor. Along with the sense of social state, social policies which enable poor people to benefit from the increase of wealth, occupied the agenda. The understanding of social state aims to enable the all citizens to benefit from the blessings of development as well as to realize the economic growth. (Çalışkan, 2010).

The importance of a peaceful social environment and fair income distribution rather than just growth of income is stated by Robert Kennedy as follows:

'GNP takes into account the air pollution, cigarette advertisements, the number of ambulances on the bloody roads, our private door latches and the prisons set up for those who break these latches. It includes the disappearance of the trees and the death of the Superior Lake. GNP increases with the napalm production, rockets, and warheads. But it doesn't take into consideration of the health of our families, the quality of the education of our children and their joy in their games. It also remains indifferent to plants where people work with their honor and to the streets where people walk peacefully. In short GNP counts everything except for those that make life meaningful' (Cited by Rifkin, 2004, p. 73).

## **INCOME DISTRIBUTION AND ECONOMIC INEQUALITY**

Income distribution expresses the distribution of income produced during a certain time period in a certain country, between individuals, different social groups and production factors. Income distribution is about the income differentiation and at this point economic and social relations become clearer. In this context, it is said that income distribution is the main explanatory element of an economy (DPT, 2001).

Income inequality indicates the difference between the income shares received by different groups in society. The most important effects of income inequality on the society and economy can be stated as follows:

- The balanced distribution of total income in a country increases the production capacity and provides market expansion. The income distribution determines whether income will be used for consumption or investment, and which products will be consumed. That is, it determines the composition of consumption (DPT, 2001).

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