

Paper prepared for the
EY International Congress on Economics II
"GROWTH, INEQUALITY AND POVERTY"
Ankara, November 5-6, 2015



EKONOMİK YAKLAŞIM
Quarterly Peer-Reviewed Scientific Journal
Department of Economics - Gazi University

**Effects of Redistributive Policies on Income Distribution: An
Intertemporal CGE Analysis**

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Abstract

Despite enormous increase in global financial liquidity from the beginning of 2000s until 2007-8, the income distribution in developing countries did not improve. Moreover, due to the effects of the global financial crisis, the income distribution even get worsened; the income difference between the richest and the poorest households widened within each country. This is also the phenomenon in Turkey: in 2003-14 period the real per capita GDP has increased by 43.4% while the poverty rate (share of population whose income is half of the median income) and the income inequality (Gini coefficient) have experienced limited recoveries. This paper, with the aid of an intertemporal model that reflects the decision making processes of different representative household groups and firms in a small open economy framework, focuses on the effects of re-distributional policies on the income distribution. Segmented labor markets and existence of non-Ricardian type of households who does not have a saving decision are major structural components of the model. In the calibration process, a micro-level non-longitudinal data set, Household Budget Survey (HBS), is utilized to obtain the household level parameters and also to construct the multi-sector production side of the model. This study, to our best knowledge, is the first effort to analyze the income distribution for the Turkish economy by using differentiated household structure in an intertemporal dynamic setting and by focusing on redistribute policies. Moreover, it is also the first study that uses a micro-level data set to calibrate the household level parameters and to construct a production side that is consistent with the private consumption expenditure composition.

Keywords: Income distribution, intertemporal CGE, redistributive policies

JEL classification: D33, D58, D91, D92, H23