

Investigation of the Relationship Between Income Inequality and Labor Productivity in the Context of Sustainable Development

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Abstract

With the acceleration of globalization, the 10th of the sustainable development goals "Reducing Inequalities" has started to attract more attention in the world. Many factors lead to inequality, so inequality requires consensus and strength at the interdisciplinary, local, national, and international levels. The prior indicator of inequality might be income inequality. Its measurability and pervasive influence are the sources of its importance and priority. Unfair distribution of income might have unfavorable effects on employees. For example, employees might be more reluctant to work. If they believe that they earn less than they deserve, this can negatively affect their labor productivity. Ultimately, it might cause countries to decrease their production output. This study explores the link between income inequality and labor productivity in the context of sample countries. The data set includes 31 countries in Europe with the period of 2005-2019. According to results, wage inequality harms the productivity of labor. Unequal distribution has an explanatory power of approximately 27% on the decrease in productivity. In this way, determining the possible effects of the unequal income distribution will guide us to two targets. These targets are to construct an efficient wage structure and eliminate the destructive effects of inequality. In the development of policy, simultaneous implementation of the instruments might be more beneficial in this regard.

The full text of this paper presented at the International Conference on Eurasian Economies 2021 was submitted to an academic journal for publication and therefore has been excluded from the conference proceedings.