

LABOUR PRODUCTIVITY, REAL WAGES AND UNEMPLOYMENT: AN APPLICATION OF BOUNDS TEST APPROACH FOR TURKEY

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ABSTRACT

This study investigates the relationship between labour productivity, average real wages, and the unemployment rate by employing the bounds testing procedure within an autoregressive distributed lag (ARDL) modeling approach and applies Toda-Yamamoto causality test for the period 2007:01–2016:04. The results indicate that real wages and unemployment have a significant and positive long-run impact on labour productivity. While a long-run wage–productivity elasticity of 0.97 supports the efficiency wage theorem and the unemployment–productivity elasticity of 0.53 indicates that workers increase efforts to secure jobs. Therefore, a rise in real wages and unemployment may induce higher productivity by raising the costs and probability of job loss, respectively, which implies rigidity in Turkish labour market. Furthermore, the causality tests provide evidence for the effect of a high and persistent unemployment rate on the Turkish economy, where unemployment affected both labour productivity and real wages. While a bi-directional causality was found between labour productivity and unemployment, a unilateral causality was observed between unemployment and real wages. Unemployment causes real wages, but there is no evidence of reversal causation.

Keywords: Bounds testing procedure, Causality, Labour productivity, Real wages, Structural break, Unemployment