

**Monographic November 2006:**

**Income Distribution**

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## 1.- U.S.A

On this journey towards the essential features of income distribution in the United States, we will proceed by tackling the three main variables commonly considered in this area: functional distribution, personal distribution and regional distribution. Without attempting to carry out an extensive study, we detected clearly significant patterns in all three variables which we detail below.

### a) Functional Income Distribution

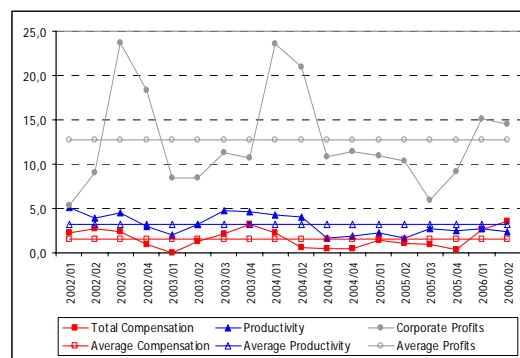
To begin with, we should tie in the final comment made in our September report (in the monograph on the labour market) and the term that we presented to our readers in the same report, the “wageless recovery”. The reason is that the most significant feature of income distribution among productive factors in recent years is the unprecedented bias towards corporate profits.

In the first half of 2006, the percentage of national income channelled to wages and salaries (or that devoted to total compensation for the labour factor, in a broader sense) was the lowest ever recorded (data goes back to 1929), while corporate profits reached their highest percentage since the beginning of the 1950s. According to estimates from the Center on Budget and Policy Priorities, real compensation for the labour factor has grown 40% less since the recession in 2001 than in previous expansive periods, while the capital factor is growing 60% faster. This is the first time that corporate profits are

enjoying a larger slice of the expansion than the labour factor<sup>1</sup>.

See Figure 1 for the OCEI's own approach, which leads to the same conclusions<sup>2</sup>. Total labour factor compensation in real terms has risen by an average of 1.6%<sup>3</sup> since the first quarter of 2002, barely half the growth rate in productivity and only an eighth of the growth in corporate profits before tax, also in real terms.

Figure 1: Productivity per Hour Worked, Total Labour Factor Compensation and Corporate Profits throughout the Current Expansion (real annual growth rate)



Source: own elaboration with data from FRED II and BLS

All the above falls into the philosophy of the wageless recovery and the idea that

<sup>1</sup> CBPP (2006); “In first half of 2006, wages and salaries captured smallest share of income on record”. October.

<sup>2</sup> In the United States there are several statistical sources for productive factor compensation that measure data differently and very much so on occasions. Nevertheless, the tone of the conclusions drawn in this case remains entirely unchanged.

<sup>3</sup> According to total compensation per hour for the private non-farm sector. This provides an intermediate growth rate with respect to other alternatives.

income distribution is systematically biased in developed countries towards capital as a result of the current stage of globalisation.

While data, at least provisionally, suggest the above, interested readers are recommended to consult pages 16 and 17 of our September report where some warnings about the wageless recovery were issued.

### b) Personal Income Distribution

To begin this section with a comment on the high level of inequality in personal income in the United States is an issue that is as stale as it is justified. The Gini Index in the United States stands at 0.408, markedly above the norm in the context of the OECD<sup>4</sup>. Meanwhile, Japan records 0.249, European countries mainly range from 0.25 to 0.35 (0.347 for Spain) and Russia at 3.999. The US score is similar to that of countries such as Trinidad and Tobago, Georgia or Turkmenistan, but at least displays more equality than in China (0.447).

We will make a few more comments, most of which lead us to the conclusion that increasing distribution equality is not one of the priorities on the US political agenda, probably because it is not a priority on US voters' agendas either. Perhaps this explains why the minimum wage has deteriorated so much, as we mentioned at the beginning of this report.

<sup>4</sup> The Gini Index, perhaps the most commonly used indicator of unequal personal income distribution, would display a score of 0 for a society in which everybody received exactly the same income (maximum equality) and a score of 1 when all income goes to one sole individual (maximum inequality).

Table 2 shows how total income has developed over the past quarter of a century as a whole, in three economic cycles, further accentuating distribution inequality. And the reason is that the level of income is positively correlated to the amount it increases. While all the quintiles of the population have witnessed an improvement in their income, the rise has been minimal in the case of the first quintile and five times large in the case of the last quintile. The richest 1% of the population has practically doubled its annual income growth rate with respect to the richest 20% of the population (a rate that is nine times higher than the poorest quintile).

Table 2: Annual Income After Tax (constant dollars in 2002)

	1980	2002	Annual Change
All	41200	55300	1.3%
Poorest Quintile	12700	13800	0.4%
2nd Quintile	25700	29900	0.7%
3rd Quintile	36700	43700	0.8%
4th Quintile	48100	61700	1.1%
5th Quintile	85200	130000	1.9%
Richest 1%	292700	631700	3.5%

Source: own elaboration with data from the Congressional Budget Office.

Note: income in a general sense, including a broader definition than that used by the Census Bureau used in the rest of this analysis.

Note: annual change = average annual accumulative growth rate.

Table 3 (the first of those that appear at the end of this report) shows how the highest income earning quintile has increased its share of total income since 1980 to 50% (while the poorest 20% of the population only receives 3.4% of total income). Furthermore, this trend has continued regardless of the political party in power. The more than six-point increase in the share of the last

quintile, which does not yet fully reflect the latest “pro rich” tax cuts made by the Bush administration, was offset by a decrease in the share of the rest of quintiles, although the medium to high group (fourth quintile) appears to be bucking the trend this decade.

In contrast, income per capita by ethnic group does appear to be converging, albeit slowly (Table 4). While the income median for a white non-Hispanic person is more than 40% higher than that of a Hispanic person and more 60% higher than an Afro-American's, the median for the last group has increased more than the rest over the past quarter of a century. However, it is true that at this pace, it would take no less than 120 years for the medians of whites, Hispanics and Afro-Americans to converge. It is better not to forecast anything so far into the future.

Table 4: Median of Individual Income by Ethnic Group (constant dollars in 2004)

	1980	2004	Annual Change
All	42,700	44,389	0.2%
Non-hispanic Whites	45,846	48,977	0.3%
Blacks	25,952	30,268	0.7%
Hispanic	32,913	34,241	0.2%

Source: own elaboration with data from the Census Bureau.

Note: annual change = average annual accumulative growth rate

Finally, the variable that draws most attention (despite being questionable in terms of rigor) when talking about personal income distribution, is the poverty rate. While it is a mistake to carry out an international comparison in this case, not only due to the definition given to poverty but also due to the social protection available to a citizen (or not) in different countries, beyond

mere income, it is at least possible to underline a few key points about the pattern of this variable in the United States (Table 5).

Table 5: Poverty Rate by Ethnic Group (%)

	1980	1990	2000	2004
All	13.0	13.5	11.3	12.7
Non-Hispanic Whites	9.1	8.8	7.4	8.6
Blacks	32.5	31.9	22.5	24.7
Hispanic	25.7	28.1	21.5	21.9

Source: own elaboration with data from the Census Bureau.

In the first place, the marked decrease in the poverty rate registered throughout the long economic expansion in the 1990s has reverted over the past five years, rising by 1.4%, the equivalent of four million more poor people which takes the total figure to 38 million).

In the second place, the inequality among ethnic groups cannot be more flagrant. One out of every four Afro-Americans and one out of every five Hispanic people are poor, compared to only 8.6% of white non-Hispanics. The pattern over the past quarter of a century, which has been very similar in all groups, has done nothing but perpetuate the differences, although the Hispanics appear to have suffered less due to increase in recent years mentioned above.

Finally, it is worth remembering that the low income earners in the United States suffer an additional problem: the unbelievable figure (at least in European terms) indicated in the first part of this report that 46 million people in the United States lack medical coverage (either private or Medicare, Medicaid or other government programmes). However the scandalous situation of the US health system, the

most expensive in the world despite the number of people who are not insured, deserves a special mention in the future.

### **c) Spatial Income Distribution**

Tables 6 and 7 (at the end of the report) present an overview of regional income distribution in the United States<sup>5</sup>, according to the large areas in which the Bureau of Economic Analysis divides the country. Table 8, which appears immediately after these observations, offers a more detailed view of each of the country's 50 states (plus the District of Columbia). The figures used refer to Gross State GDP per capita<sup>6</sup> and average economic growth over the period 1997-2005.

In the first place, the country appears to be divided into two groups in 2005, coastal areas and the rest of the country. New England and the Mideast and the Far West are the only regions where GDP per capita exceeds the national average of \$42,000 a year. Coincidence or not, but these areas are normally coloured Democrat blue in elections.

Meanwhile, the historical poverty in the south of the country (somewhat masked by the southwest due to the presence of Texas which is relatively prosperous), has been joined by the Great Lakes, a region that has traditionally been the factory of the United States and which has been

seriously affected by the deterioration in the manufacturing industry.

There is a 28% difference between income per capita in New England and the southeast, but when a scale that is more easily comparable to other countries is used, the differences are much larger. Income per capita in Delaware, the richest state (apart from the unique District of Columbia with the capital city Washington) is 140% higher than in Mississippi, the poorest state.

As far as recent developments are concerned, no overall pattern of convergence or divergence (being aware of how imprecise referring to a typically long term variable over a period of only a decade can be) can be observed over the period 1997-2005.

In the west of the country, which is above the national average as mentioned previously, has recorded the highest growth rate over the last decade, but is followed by southern areas, particularly in the southeast. The decline of the manufacturing industry has undoubtedly dragged the economic growth in the region of the Great Lakes down to particularly low levels (far from the 3.1% national average). The squalid 1% annual growth rate in Michigan, capital of the car industry, clearly contrasts with the growth rates of around 4.5% registered in Oregon and California and the 5.7% rate recorded in Arizona, the most buoyant state in the past decade.

Therefore, while both coasts appear to be the most developed regions in the country (with very few exceptions in terms of states) compared to the south of the country, the latter appears to be responsible for growth (although several states are far from following

<sup>5</sup> A map of the United States, with its different States and corresponding capitals can be found at the end of this report.

<sup>6</sup> Regional equivalent of GDP per capita; while GSP has been used historically, the BEA has begun to use the term State or regional GDP.

this trend, including Louisiana and Mississippi).

However, the west coast is always on top, which reflects the current situation in the world that appears to be consolidating in both the present and the future, not only for the United States, with both the Asian and American regions of the Pacific leading the international economy. Undoubtedly the APEC is ready to take over the leadership of the Atlantic and the United States as a whole.

Table 8: Gross State Product per Capita (in 2005 dollars) and Average Growth rate (1997-2005)

STATE	GSP (cp)	Growth
Alabama	33,264	2.8
Alaska	59,238	0.6
Arizona	36,457	5.7
Arkansas	31,215	2.6
California	44,894	4.4
Colorado	46,416	4.3
Connecticut	55,193	2.2
Delaware	66,961	3.3
District of Columbia	148,641	3.1
Florida	37,846	4.6
Georgia	40,103	3.4
Hawaii	42,361	1.9
Idaho	33,020	5.3
Illinois	43,878	2.0
Indiana	38,037	2.4
Iowa	38,280	2.1
Kansas	38,465	2.5
Kentucky	33,666	1.5
Louisiana	37,183	0.6
Maine	34,030	2.2
Maryland	43,967	3.7
Massachusetts	50,935	3.5
Michigan	37,175	1.0
Minnesota	45,697	3.3
Mississippi	27,829	1.7
Missouri	37,251	1.7
Montana	31,940	3.0
Nebraska	40,185	2.0
Nevada	46,108	5.3
New Hampshire	42,033	4.0
New Jersey	49,447	2.5
New Mexico	35,714	3.3
New York	49,748	3.2
North Carolina	39,921	3.3
North Dakota	38,319	2.7
Ohio	38,461	1.5
Oklahoma	34,243	2.5
Oregon	39,625	4.5
Pennsylvania	39,344	2.2

Rhode Island	40,687	3.0
South Carolina	32,906	2.4
South Dakota	39,848	4.0
Tennessee	38,440	2.9
Texas	43,283	3.8
Utah	36,758	3.7
Vermont	37,020	3.9
Virginia	46,502	4.2
Washington	42,512	2.9
West Virginia	29,199	1.3
Wisconsin	39,074	2.4
Wyoming	53,543	3.1

Vicente J. Pallardó López  
Valencia, 30 November 2006

Table 3: Household Income Distribution (constant dollars in 2004)

	1980	1991-1992 Average	1999-2000 Average	2003-2004 Average
Poorest Quintile	4.3	3.8	3.6	3.4
2nd Quintile	10.3	9.5	8.9	8.7
3rd Quintile	16.9	15.8	14.8	14.7
4th Quintile	24.9	24.2	23.1	23.3
5th Quintile	43.7	46.7	49.6	49.9

Source: own elaboration with data from the Census Bureau

Note: 1991-1992: Last years of Ronald Reagan and George Bush Sr.'s Republican governments; 1999-2000: last years of Bill Clinton's Democrat government; 2003-2004: last years of George Bush Jr.'s first Republican government.

Table 6: Gross State Product per capita by Large Regions (dollars in 2005)

REGION	\$ per capita	Pos. 1-10	Pos. 11-20	Pos. 21-30	Pos. 31-40	Pos. 41-51
New England	48,214	2	2		1	1
Mideast	47,736	4	1	1		
Far West	44,399	1	4	1		
Rocky Mountain	41,130	2			1	2
Southwest	40,738		1		1	2
Plains	40,157		1	3	3	
Great Lakes	39,693		1	2	2	
Southeast	37,600	1		3	2	6

Source: own elaboration with data from the Census Bureau.

Note: the third and seventh columns refer to the number of States in each of the large regions whose GSP pc is nationally ranked in the range at the top of the columns. For example, for New England a value of 2 is given for positions 1-10, which correspond to the States of Connecticut and Massachusetts, 4<sup>th</sup> and 6<sup>th</sup> respectively in the national ranking.

Table 7: Average GDP Growth Rate (1997-2005) by Large Region (%)

REGION	Growth Rate	Pos. 1-10	Pos. 11-20	Pos. 21-30	Pos. 31-40	Pos. 41-51
Far West	4.1	3		1		2
Southwest	4	1	2		1	
Southeast	3.2	2	2	3	1	4
New England	3	1	2	1	2	
Mideast	2.9		2	2	2	
Rocky Mountain	2.5	2	1	2		
Plains	2.5	1	1	1	2	2
Great Lakes	1.7				2	3

Source: own elaboration with data from the Census Bureau

Note: the third and seventh columns refer to the number States in each large region whose growth rate over the period dating from 1997 to 2005 is ranked nationally as indicated at the top of the column. For example, a value of 3 is given for the Far West in Pos. 1-10, which corresponds to the States of Nevada, Oregon and California, 2<sup>nd</sup>, 5<sup>th</sup> and 6<sup>th</sup> respectively in the national ranking.



**State Capitals of the U.S.**  
(not to scale)

Source: [www.infoplease.com/statemaps.html](http://www.infoplease.com/statemaps.html)

## 2.- EURO-ZONE

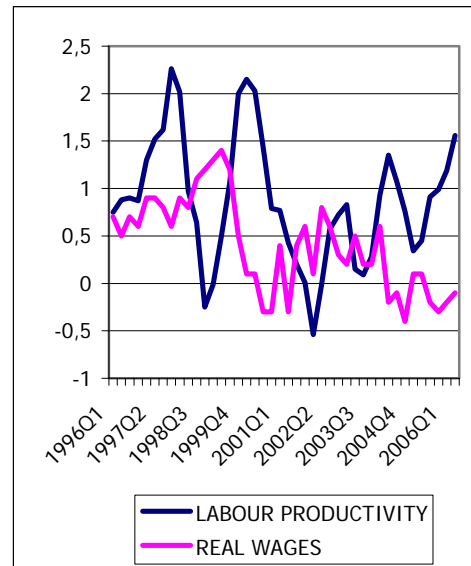
### 2.1 Real Wage Weakness and Corporate Profit Developments

Real wages has risen weakly in the Euro-zone. Growth in real wage earnings (up by an annual 0.24) over the period dating from 1999 to 2006 was outpaced by productivity (up by an annual 0.77) thus opening up a gap between the two variables. In addition to this, real wage growth has been flat and even negative.

The reason behind the negative results in terms of real wages has been and is globalisation.

The relocation of certain industries (mainly those intense in unskilled labour) in countries where wage costs are low, has resulted in a loss of jobs in developed countries that has dampened real wages, particularly in the countries that are most specialised in industries that the most prone to outsourcing and non-specialised employment. Furthermore, this situation has led to unskilled workers in sectors where the risk of relocation is high moving to other sectors that do not face foreign competition and which absorb unskilled labour, such as retail trade and consumption related services.

Figure 1: Real Wages and Labour Productivity



Source: ECB

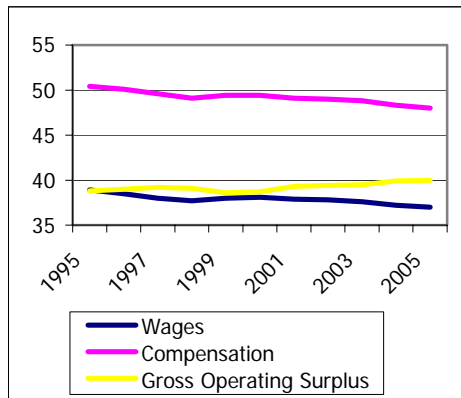
Unemployment and immigration are two further aspects that have depressed real wages, together with labour reform which tends to make labour cheaper to avoid relocation.

Outsourcing has increased significantly. Worldwide, this practice accounts for 11.5% of GDP, while in the European Union it is the equivalent of 15.25% of GDP (2003). In 1992 outsourcing represented 12% in the EU.<sup>7</sup>

The shift of emerging nations such as China towards the industry of capital goods and greater specialisation is a further menace to developed countries that in a short space of time could begin to feel the effects.

<sup>7</sup> The EU economy: 2005 review. European Commission.

Figure 2: Wages, Compensation and Gross Operating Surplus over GDP



Source: Eurostat

The persistent effect of depressed real wages in the Euro-zone has distorted global income sharing in favour of corporate profits. In fact, real wages as a percentage of GDP decreased by two percentage points in favour of profits from 1995-2005.

Despite real wages decreasing in terms of GDP in the Euro-zone as a whole in recent years, significant differences across individual countries are observed. While in Germany, Italy, the Netherlands and Spain wages display a downward trend with respect to GDP, in the case of Austria, Belgium, Finland, France and Ireland, the opposite occurs<sup>8</sup>.

This heterogeneity is explained by cyclical differences, the presence of different economic structures and the presence of greater or lesser protection in the labour market.

In Italy and Spain, the decrease in wages with respect to GDP is due to the great importance of retail services and those linked to

consumption together with real estate/construction, a sector that demands a great deal of unspecialised labour that generates lower productivity. As regards Germany, the high level of unemployment in sectors subject to strong competition together with companies' need to improve efficiency and the fear of reallocation explain why wages have lost ground in terms of GDP.

In France, however, wages are increasing in terms of GDP. Productivity gains stemming from productive specialisation in financial services and the fact that the labour market is more protected are behind this trend.

## 2.2: Growing Inequality, but Less than in Other Regions

Although using one inequality indicator or another could change the outcome in general, the truth is that the level of household income inequality is much higher in the United States than in the largest European countries.

Table 2.1: Household Income Inequality (D9/D1) (2002)

Germany	3,6
Spain	3,6
Italy	2,7
The Netherlands	3,2
France	3,5
The United States	10,75
The United Kingdom	4,2

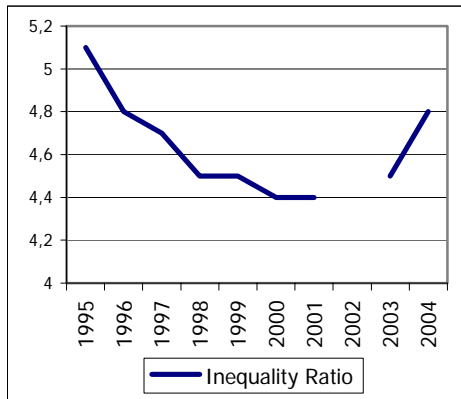
Source: IXIS

The best part of the empirical studies on income distribution and poverty in OECD countries conclude that after the widespread stabilisation of income distribution in the 1970s, the increasing

<sup>8</sup> WP 500-2006 OCDE "Labour market performance, income inequality and poverty in OECD countries" by J.M. Burniaux and others.

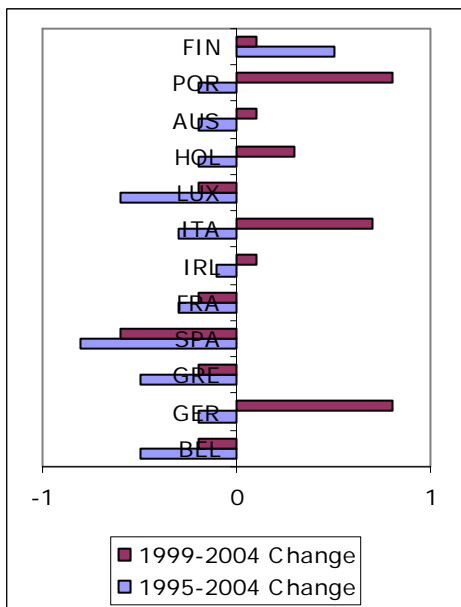
inequality in the 1980s in English speaking nations spread to many continental European countries in the 1990s<sup>9</sup>.

Figure 3: Inequality Ratio



Source: Eurostat

Figure 4: Inequality Ratio by Country (Change in 1995-2004 and 1999-2004)



Source: Eurostat

However, when considering the inequality ratio as the dispersion

<sup>9</sup> OECD Economic Studies 34/2002. "Income distribution and poverty in the OECD Area: Trends and driving forces" by M. Förster and M. Pearson

variable, inequality has decreased slightly in aggregate terms over the period 1995-2004. This ratio measures the relationship between the amount earned by the richest 20% and that received by the poorest 20% of the population. While in 1995 the ratio was 5.1, in 2004 it had dropped to 4.8. Notwithstanding, there are two clear sub-periods that must be taken into account: 1995-2001, during which time a decrease in income inequality was observed and another from 2001 onwards in which income inequality has risen again.

Table 2: Inequality Ratio (2004) and Gini Index\* (2002)

	Inequality Ratio	Gini Index
Belgium	4	27,2
Germany	4,4	27,7
Greece	6	34,5
Spain	5,1	32,9
France	4,2	27,3
Ireland	5	30,4
Italy	5,6	34,7
Luxembourg	3,7	26,1
The Netherlands	4	25,1
Austria	3,8	25,2
Portugal	7,2	35,6
Finland	3,5	26,1

\*Gini Index\*100

Source: Eurostat and OECD

By Euro-zone member state, the only country whose inequality index has risen over the entire period is Finland, although it still boasts the most equal income distribution. If we considered the sub-period 1999-2004, Germany, Italy, the Netherlands, Austria, Portugal and Finland would have been the countries where inequality had increased.

The Netherlands, Austria and Finland are the countries where

income distribution is most uniform, while the highest level of income inequality is in Portugal, Italy, Greece and Spain.

In addition to this, in the Euro-zone households in which two members are wage-earners and those in which nobody receives income are becoming more and more frequent to the detriment of single wage-earning households.

Furthermore, there are other factors that create income inequality per se, such as gender, age and level of education.

Women have traditionally received lower wages than men. Nowadays, women receive on average 15% less than men, although this difference has been reduced by two points since 1994.

Table 3: % of the Population with a level of Education no Higher than Low Secondary School

	%
European Union	34,9
Belgium	39,7
Germany	17
Greece	47,3
Spain	58,4
France	35,9
Ireland	39,7
Italy	55,7
Luxembourg	38,4
The Netherlands	32,4
Australia	21,8
Portugal	79,4
Finland	25,3

Source: Eurostat

Age also generates differences in income. As in the majority of OECD countries, in the Euro-zone people aged between 41 and 50 have higher wages than the rest of workers.

Table 4: Unemployment Rate by Level of Education (%)

	Lower Sec.	Upper Sec.	Uni
Euro-zone	12,8	8	5,3
Belgium	11,7	6,9	3,9
Germany	20,5	11,2	5,5
Greece	8,4	9,7	6,9
Spain	11	9,5	7,3
France	12,1	7,6	6,2
Ireland	6,4	3,2	2,1
Italy	7,8	5,3	4,8
Luxembourg	5	3,8	3
Netherlands	5,7	3,9	2,8
Australia	7,8	3,8	2,9
Portugal	6,4	5,6	4,4
Finland	12	8,2	4,7
USA	10,5	5,6	3,3
Japan	6,7	5,4	3,7

Source: OECD

As regards education, the unemployment rate and the level of studies attained are inversely proportionate. This relationship is even more sensitive in countries where people have higher level of education. As a result, the unemployment rate among those people who have received the lowest level of education is much higher than for those who have university studies. For example, the unemployment rate in Germany among people with a lower secondary school education is 20.5%, which is not only well above that of other countries (11% in Spain), but also almost four times higher than the unemployment rate among those with university studies. All of this affects inequality and poverty directly because both concepts are linked to the level of unemployment in the economy.

Southern European countries such as Italy, Portugal, Greece and Spain are those with the lowest percentage of the population with university studies.

As far as how much risk of poverty there is in the Euro-zone, defined as the percentage of the population that receives less than 60% of the average income, 25% of people are in this situation. If measured since 1995, this percentage has risen by one point, but if it is measured since 1999, the deterioration would be even greater, three points.

### 2.3: Spatial Inequality

Apart from the differences in the level of income per person or household in the Euro-zone, marked divergence persists between the average level of income across countries, regardless of whether this is measured in terms of GDP per capita or in Purchasing Power Parity.

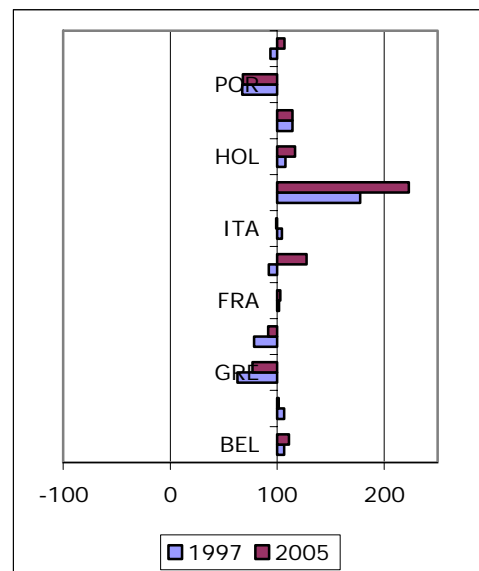
In 2005, while Luxembourg boasted income per capita equivalent to 223% of the Euro-zone average (GDP in PPP), Portugal registered only 67.9%.

Eight of the twelve Euro-zone countries have a level of income per capita above the average (Luxembourg, Ireland, the Netherlands, Austria, France, Germany and Belgium), while four record below average figures (Spain, Italy, Greece and Portugal).

Income per capita has also displayed a highly erratic trend since 1997. Countries such as Luxembourg, Ireland, Finland, Greece and Spain, where income per capita has grown markedly and

in some cases, such as Ireland and Finland, has helped to boost the level of income per capita in the Euro-zone is contrasted by negative developments in other countries such as Germany and Italy. In this last case, income per capita has dropped below the average. Whether income per capita has increased or decreased over the period under analysis is obviously linked to economic growth.

Figure 5: GDP per Capita in PPP (EUR=100)



Source: Eurostat

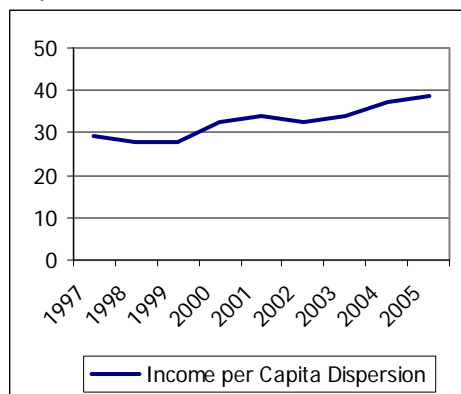
Apart from the more positive trends in some countries than in others, income per capita in the Euro-zone as a whole is tending to diverge. By measure the level of income dispersion by country – standard deviation – over the period of reference, the gap has widened. While in 1997 it was 29.1, in 2005 it stood at 38.8.

Table 5: Average GDP Growth and Accumulated Income per Capita (1997-2005)

	Average GDP	ACC. INCOME
Belgium	2,06	4,13
Germany	1,31	-4,86
Greece	3,94	21,92
Spain	3,65	16,83
France	2,15	0,99
Ireland	7,45	38,11
Italy	1,27	-5,05
Luxembourg	4,59	25,62
Netherlands	2,6	8,58
Austria	2,19	0,09
Portugal	2,37	0,56
Finland	3,63	13,85

Source: Eurostat

Figure 6: Euro-zone GDP per Capita Dispersion



Source: Eurostat

On the other hand, if we take each Euro-zone country on a regional basis, we would find that the level of income and the degree of regional inequality cannot be related. Some countries have low level of GDP per capita with a low degree of regional inequality (Greece) while others have high GDP per capita and a high degree of regional inequality.

Table 6: GDP per Capita and Regional Inequality Index (1975-2000)

	GDP/Capita	Reg. Inequality
France	1,11	0,75
Greece	0,68	0,8
(West) Germany	1,2	0,92
Netherlands	1,11	1,01
Spain	0,79	1,04
Finland	1,01	1,12
Portugal	0,64	1,17
Belgium	1,11	1,18
Australia	1,11	1,19
Italy	1,05	1,31

Source: European Commission

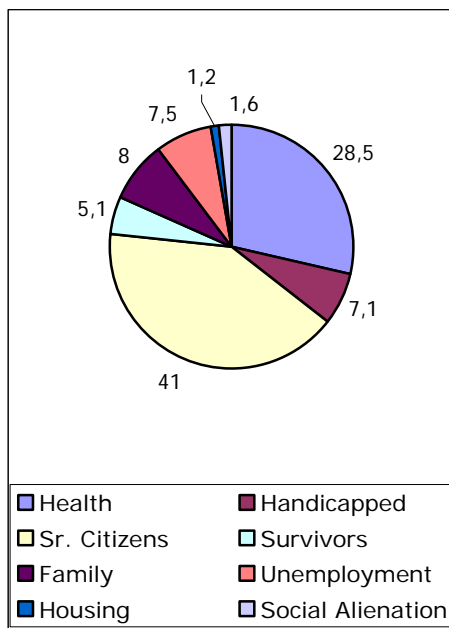
#### 2.4: Redistribution Policies

Total income and expenditure on behalf of public administrations have lost ground in relation to GDP. The share has dropped by around two points since 1997 (from 47% in 1997 to 45.1% in 2005 for total income). This is due to the overall trend towards less progressive indirect taxation, the elimination or reduction of some of them or the preferential treatment of capital gains and companies. Furthermore, public authorities have made widespread use of government grants to stimulate private investment in their respective regions, in some cases generating outright auctions among public administrations in order to attract the investment of a particular company.

Social expenditure carried out by public administrations represents approximately 28% of GDP, of which health and pension costs account for 69.5%. If we also ignored unemployment costs, benefits for families and the handicapped are the largest. Transfers have reduced the

percentage of the population at risk of becoming poor, that is, a person whose disposable income is less than 60% of the median, to 17%, an eight-point decrease.

Figure 7: Social Expenditure Distribution



Source: Eurostat

The community administration also channels resources towards reducing inequality, albeit much less than the rest of administrations. The total community budget represents 1.08% of gross national income, of which 43% is channelled to cohesion and competitiveness policy aimed at boosting growth and employment. Such policies include the Social Agenda, which aims to develop and modernize the European social model and promote social cohesion. The financial instruments used are the European Social Fund, the progress programme, the open coordination method, the European employment Strategy and the integration principle.

If we bear in mind the taxes that are paid and the income received through government transfers, halfway through the 1990s and at an OECD level, the lowest 30% of income earners received 36.2% and paid 8%, while the highest 30% of income earners received 25.9% and paid 59.4% of taxes.<sup>10</sup>

Notwithstanding, the general trend of transfers and taxes redistributing income has tapered off since the mid 1990s. Transfers and taxes continue to redistribute income in Belgium and Italy, while in Spain and Portugal only taxes continue to do so. As regards the impact of taxes on the lowest income earners, a negative result can be deduced.<sup>11</sup>

### 2.5 Effects of Income Distribution Inequality and Distortion

The consequences of not correcting inequalities, apart from the long term risk of the system becoming unsustainable, are as follows:

- 1- Polarisation of the demand for goods and services: luxury goods for the rich and goods imported from emerging nations and with discounts for the poor.
- 2- Decrease in aggregate private consumption: high income earners are prone to consume less than low income earners. An increase in inequality would progressively push up the

<sup>10</sup> OECD Economic Studies 34/2002. "Income Distribution and Poverty in the OECD Area: Trends and driving forces". M. Föster and M. Pearson

<sup>11</sup> WP OECD 500/2006 "Labour Market Performance, Income Inequality and Poverty in OECD Countries by J.M. Burniaux and others.

aggregate savings rate and create a lack of effective demand. In this sense, governments should, on the one hand guarantee imported products, which take advantage of lower wages to be sold at highly competitive prices, thus stimulating competition among businesses and on the other hand implant tax benefits to force companies to distribute profits in various ways: worker participation in profits or free shares in the company.

- 3- Conflicts in income distribution: between taxpayers and receivers; pensioners and workers; companies and workers; and between specialised and non-specialised workers.<sup>12</sup>

Nicolás Jannone  
Valencia, 6 December 2006

### 3.- SPAIN

This monograph analyses income distribution in Spain from three different viewpoints:

- functional (productive factors)
- personal (including an evaluation of poverty in Spain)
- spatial or regional

#### Functional Income Distribution

The gross domestic product of a country can be obtained from demand, supply or income. In this section we are going to concentrate on the income

<sup>12</sup> IXIX Flash N° 79/2005, N° 357/2006 and N° 422/2006 by Patrick Artus.

side. Therefore, the total product of the economy, namely the gross domestic product less net taxes on output and imports (that is, GDP at factor value), is made up of earnings (including both gross wages and salaries as well as social security contributions made by employers) and the gross operating surplus (capital income, mixed income and public sector income).

Table 1: Income Share of GDP at Factor Value (%)

	1995	2000	2005
Earnings	53.43	54.99	52.75
Gross Operating Surplus/ Gross Mixed Income	46.57	45.01	47.25

Source: own elaboration with data from INE

Table 1 shows there are two clear periods within the overall pattern displayed by earnings and the gross operating surplus over the past decade. The share of earnings increased until 2000, but since then there has been a sustained rise in the share of the gross operating surplus. This trend has been fuelled by the increase in corporate profit margins in recent years, as can be appreciated by the growing difference between the implicit GDP deflator and unit labour costs (see graph on page one of this report). Real wages, on the other hand, have barely increased over the entire period.

As we have highlighted in previous reports, one of the most urgent problems of the otherwise buoyant Spanish economy is the continuous loss of competitiveness. The slow progress in productivity (clearly outpaced by earnings) is provoking large differences in labour costs per product in comparison to the countries in the vicinity of Spain. Higher unit labour costs result in higher inflation rates.

Furthermore, the implicit GDP deflator, which captures the price of goods and

services produced in Spain, is increasing at a much faster rate than unit labour costs as a result of the increase in corporate profit margins. This evidences the presence of duality in the economy. On the one hand, manufacturing sectors face increasing international competition, which makes it impossible for companies to pass cost increases on to prices, which is even sparking decreases in profit margins. On the other hand, other sectors, such as construction and services, are relatively protected from competition and have not only passed on cost increases to prices, but have also increased their profit margins in recent years (which at the same time boosts inflation).

Table 2: Sectoral Wage Distribution (%) and Gross Operating Surplus (GOS)

	Wages		GOS	
	1995	2003	1995	2003
Farming, livestock & fishing	1.4	1.3	9.0	6.3
Energy	2.2	1.2	6.5	5.1
Industry	22.1	17.8	15.6	11.7
Construction	8.9	12.4	6.4	9.2
Services	65.4	67.3	72.8	76.3
* Market	39.6	43.3	69.0	72.2
* Non-market	25.8	24.0	3.8	4.1

Source: own elaboration with data from INE

Table 2 provides information about the share of the various sectors in the gross operating surplus and wages. We can see how services (particularly market services) and construction have increased their share of the gross operating surplus, which is partly due to the situation described in the foregoing paragraph (although it is also a result of these sectors being more buoyant). The same pattern is observed in wages.

A slight increase in the share of social contributions in wages can be observed in Table 3, which is due to the increase in those paid by companies.

Table 3: Breakdown of Earnings

	1995	2003
Wages	218,530	370,986
Net wages and salaries	172,879	288,640
Social contributions made by the company	45,651	82,346
Total social contributions	63,930	111,508
Share of Social contributions:		
Company	20.9%	22.2%
Total	29.3%	30.1%

Source: own elaboration with data from INE

Finally, when the composition of household income is analysed in detail, some interesting trends emerge.

Firstly, gross primary household income rose by 61.8% over the period dating from 1995 to 2003, mainly boosted by the near 70% rise in wages (with a 32.5% increase in wage-earners), whereas the CPI rose by only 25.2%. As a result, real household income increased substantially over the period under consideration.

Secondly, wage income has gained ground in relative terms both due to the trend observed in wages and salaries as well as that witnessed in social contributions (see Table 3), while the relative share of mixed capital has remained practically unchanged. It is worth highlighting the fact that property income has become less important and has even diminished in nominal terms due to the marked fall in net interest received by households, undoubtedly the result of the increasingly high level of Spanish household borrowing.

Table 4: Functional Distribution of Household Primary Income

	1995	2003
Gross operating surplus	5.59	5.79
Gross mixed income	22.22	22.19
Wages	62.68	66.18
Property income	9.51	5.83
Gross primary income balance (millions of euros)	334,295	540,904
(simple growth rate 1995-03, %)		61.8

Source: own elaboration with data from INE

### Personal Income Distribution

Studying personal income distribution is an important part of analysing income distribution inequality and welfare.

The simplest indicators for assessing how evenly distributed personal income is include the Gini Index and the ratios between the various percentiles of income distribution. The latter include the p90/p10 ratio, which is the coefficient between the level of income that 90% of the population does not exceed and the level of income that 10% of the population does not exceed.

Income inequality has decreased significantly over the past three decades as can be appreciated by the low score recorded by the Gini Index in 2001 (see Table 5). The income ratio, excluding the upper and lower distribution extremes (p90/p10 and p80/p20) provides the same evidence. However, the Gini Index suggests there has been a change in trend towards greater equality since the beginning of the 1990s, ratified by the increase in the coefficient between the level of income not exceeded by 90% of the population and the median.

Table 5: Inequality in Spain. Gini Indexes and Percentile Ratios

	1973/74	1980/81	1990/91	2001
Gini Index	0.3398	0.3332	0.3195	0.3249
Percentile Ratio:				
p90/p10	4.741	4.579	4.238	4.068
p90/p50	2.157	2.158	2.072	2.107
p80/p20	2.695	2.651	2.653	2.431

Source: adapted from Table 1 in Goerlich, F.J. and M. Más (2004), "Distribución personal de la renta en España. 1973-2001", *Papeles de Economía Española*, núm. 100, vol. I.

Despite inequality decreasing, income distribution in Spain remains uneven

when compared to other EU countries or even the OECD.

Table 6 presents the different percentiles of workers' gross annual income distribution in industry and services for a group of EU25 countries. The disparities observed across European countries are especially significant.<sup>13</sup> The average value of this distribution (level of income not exceeded by 50% of workers) in Denmark is more than four times that in Estonia. As far as Spain is concerned, the median is lower than the average value for the EU25.

Table 6: Gross Annual Income in Purchasing Power Parity in Industry and Services (2003)

	p10	p50	p90
UE-25	9,563	23,190	47,757
Denmark	19,696	29,414	49,059
Estonia	2,982	7,150	17,392
Spain	11,821	19,309	42,646
France	14,912	23,325	46,946
Italy	15,771	23,114	42,486
Portugal	6,012	9,735	24,515

Source: own elaboration with data from Eurostat, SES 2002

Note: p10, p50, p90 are the percentiles 10, 50 (median) and 90 of the distribution of gross annual income

Table 7 makes it possible to assess how evenly (or unevenly) income is distributed in Spain, as well as to compare the country with others in the immediate vicinity in 2003. Column 2 evidences the high degree of inequality in Estonia and the minimal inequality in Denmark. Income distribution in Spain is relative uneven, in light of the fact that the value is clearly higher than the average for the EU25 (3.6 compared to 3). As is the case in most European countries, the greatest differences in income occur in the region where the

<sup>13</sup> See "Earnings disparities across European countries and regions", Eurostat.

capital of the country is located. As a result, the ratio mentioned above stands at 4.5 for the Madrid region, while the lowest level of inequality is recorded in the northeast with a p90/p10 ratio value of 3.1.<sup>14</sup>

Table 7: Gross Annual Earnings in euros with Purchasing Power Parity in Industry and Services (2003)

	Average	p90/p10	Average/p50
UE-25	27808	3.0	1.20
Dinamarca	32408	2.5	1.10
Estonia	9418	5.8	1.32
España	24713	3.6	1.28
Francia	29041	3.1	1.25
Italia	27476	2.7	1.19
Portugal	13609	4.1	1.40

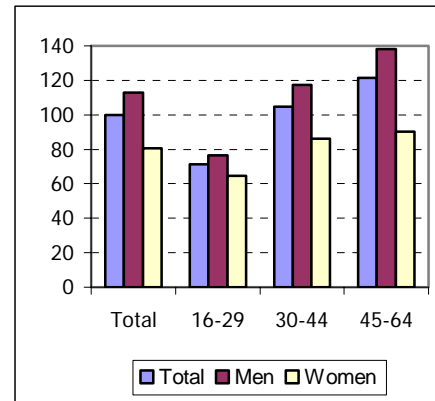
Source: own elaboration with data from Eurostat, SES 2002

Note: P1, p5, p9 are percentiles 10, 50 (median) and 90 of the distribution of gross annual earnings

The last column in Table 7 indicates that income distribution is asymmetrical, with the tail to the right (higher income) being longer as the value of the average/median ratio is greater than 1 for all the countries. Once again, the value is relatively high in the case of Spain, indicating that income is more unequally distributed in Spain than in France, Italy, Denmark and the EU25 as a whole.

Evaluating how evenly income is distributed and the level of poverty, based on issues such as education, gender, race etc. are important aspects within personal income distribution. Using the information from the *Encuesta de Condiciones de Vida* (Standard of Living Survey) elaborated by INE, we can assess the degree of equality in wage (and household income) distribution.

Figure 6: Monthly Wages by Age and Gender in 2003 (total monthly wage = 100)



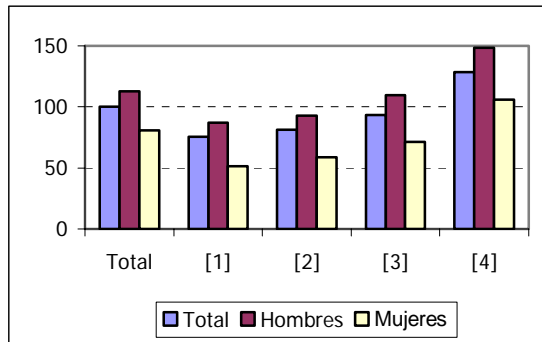
Source: own elaboration with data from INE, Standard of Living Survey (2004)

Figure 6 shows how men's wages are higher than women's for all age groups, and that young people's wages are the lowest.

Moreover monthly wages are positively correlated to the level of worker training (see Figure 7), both for men and women, although the gender gap remains at all levels of training. This result is maintained when Spanish household income is ordered according to the level of education/training of the referent.

<sup>14</sup> Territorial classification of regions according to the NUTS-1 Classification of Eurostat

Figure 7: Monthly Wage by Gender and Education in 2003 (total monthly wage= 100)



Source: own elaboration with data from INE: Standard of Living Survey (2004)

- [1] Primary education or lower (including illiteracy)
- [2] Secondary education, first stage
- [3] Secondary education, second stage
- [4] Higher education

Spanish workers earn 30% more than foreign workers who are not from Europe.

Table 8: Average Household Income According to the Situation of Reference Person (1995, 2002)

	1995	2002
<b>Economically Active</b>	<b>103.84</b>	<b>109.62</b>
Unemployed	67.55	67.76
Employed	109.96	111.76
- Business and Public Authority Management	147.01	116.76
- Scientific Technicians, academics and Professionals	192.58	170.92
- Support Technicians and Professionals	138.95	133.57
- Administrative workers	123.02	118.69
- Hotel, restaurant, personal services and security workers and sales reps.	94.86	93.80
- Skilled workers in farming and fishing	70.28	75.88
- Craftsmen and skilled workers in manufacturing, construction and mining, excluding machine and facility operators	87.69	85.30
- Facility and machinery operators and assembly workers	91.44	94.17
- Unskilled workers	79.81	71.11
<b>Economically Inactive</b>	<b>82.38</b>	<b>84.71</b>

Source: own elaboration with data from INE

Table 8 shows how income is higher for the economically active population that is employed than the economically inactive population. The highest income is received by managing directors, scientific technicians, academics and support technicians and professionals and administrative workers, while the lowest income is earned by unskilled workers.

### Poverty in Spain

Despite the fact that poverty in Spain has decreased over the last few decades, relative poverty has increased slightly since the mid 1990s. As a result, the poverty rate is above the average for the OECD.

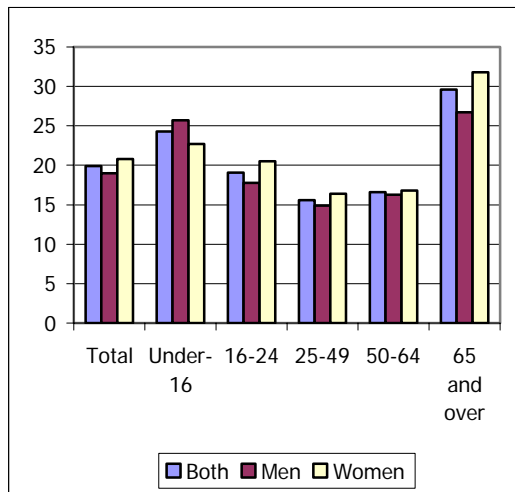
In this section we are going to focus on succinctly examining the main characteristics of the poverty in Spain in the present day using the information in the Standard of Living Survey carried out by INE.<sup>15</sup> The poverty line or threshold is obtained by net income per unit of household consumption (**household disposable income/number of units of consumption**, where the number of units of consumption is weighted according to the modified OECD scale - see [www.ine.es](http://www.ine.es) for further detail). All individuals who earn less (per unit of consumption) than the poverty threshold (60% of the income distribution median per unit of household consumption allocated to each person) are considered to be poor.

Figure 8 displays the distribution the poverty rate by gender and age. Some

<sup>15</sup> The survey is conducted on private households who live in the main family residence. Therefore, neither the homeless nor those who live in collective institutions or homes are included.

20% of the population is below the poverty threshold. Poverty affects women (20.8%) more than men (19%) in all age groups except under-16.

Figure 8: Poverty Rates (%) by Gender and Age (2003)



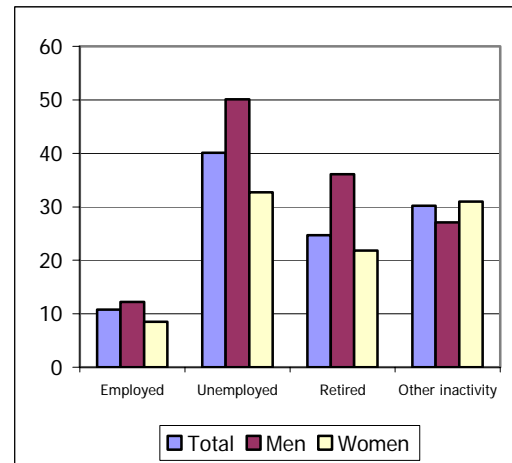
Source: own elaboration with data from INE: Standard of Living Survey (2004)

Poverty rate: number of poor people in a group/total number of people in that group

We can also see how the poverty rate is U-shaped in relation to age, as the highest risk age groups are under 16 and particularly 65 and over. In this last group, the female poverty rate soars to 31.8%, five percentage points above that recorded by men of the same age. The high poverty rate among the elderly (65) who live alone is particularly striking at 51.8%.

On the other hand, the risk of poverty is negative correlated to population density, with considerably higher poverty rates in scarcely populated areas.

Figure 9: Adult Poverty Rates (%) by Main Activity (2003)



Source: own elaboration with data from INE: Standard of Living Survey (2004)

Figure 7 and Table 9 present the poverty rates by main activity and by gender for adults (16 and over). The highest risk group in terms of poverty are the unemployed. Half the men who are unemployed are poor, while "only" a third (namely 32.7%) of the women who are unemployed are poor. The reason for this discrepancy lies in the very nature of the information from the Standard of Living Survey together with the intrinsic characteristics of the Spanish society and labour market (there are less women in the labour force and the female unemployment rate is higher). The information provided by this graph is personal, while the division of the population into poor and not poor is made using household data, which means that people who are unemployed (or in other situations such as economic inactivity) may not be poor if the income of other people in the household is high enough.

The group entitled "Other Inactivity" displays a poverty rate of slightly more than 30%, with a higher risk of poverty in this case for women. This is worth

underlining, 45% of adult women (inactive but not retired) are included in this category, as can be appreciated in Table 9, thus further contributing to the overall female poverty rate.

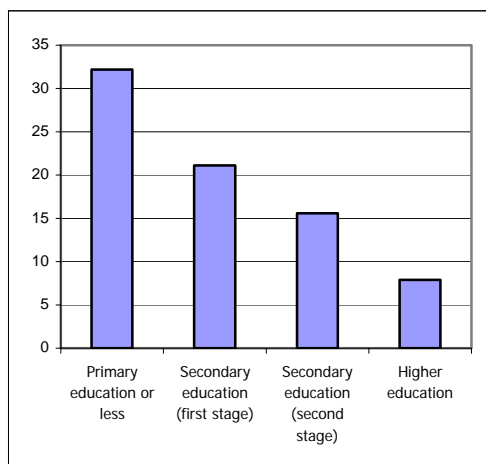
Table 9: Population and Relative Poverty Rates by Labour Situation and Gender (2003)

	Men		Women	
	% of Population	Poverty Rate (Men = 100)	% of Population	Poverty Rate (Women = 100)
Employed	62.1	64.1	37	38.9
Unemployed	6.1	262.3	8.2	150.0
Retired	20.2	137.1	9.8	100.0
Other Inactivity	11.6	142.2	45	141.3

Source: own elaboration with data from INE: Standard of Living Survey (2004)

The total poverty rate for the retired is 20 points higher than the overall poverty rate, which is mainly due to the high risk of poverty among retired men. Finally, as was to be expected, the poverty rate among the employed is more than 9 points lower than the overall rate.

Figure 8: Adult Poverty Rate (%) by Level of Education (2003)

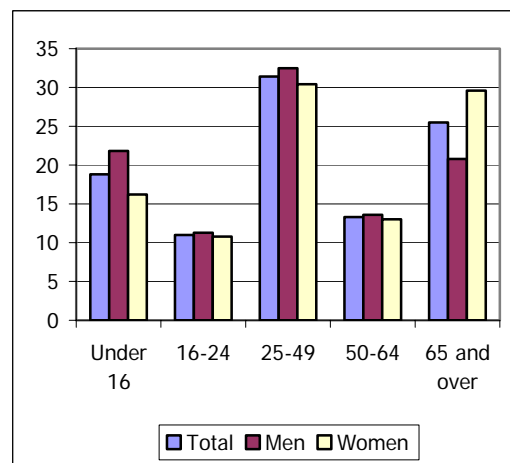


Source: own elaboration with data from INE: Standard of Living Survey (2004)

The level of education and the risk of poverty are strongly and negatively correlated (see Figure 8). As a result, the poverty rate ranges from 7.9% for those who have higher education to 32.2% for the people with primary education (including the illiterate).

In order to assess the poverty situation more precise, it is necessary to investigate additional features, such as the income distribution among the population that is below the poverty threshold. In this sense, 20% of the poor in 2003 (around 4% of the total population) earned less than €3,117 per annum and therefore less than half the poverty threshold (€6,278.70).

Figure 9: Population Distribution by Age and Gender (2003)



Source: own elaboration with data from INE: Standard of Living Survey (2004)

Furthermore, 53.3% of the population classified as poor are women. Figure 9 highlights that approximately a third of the poor are aged between 25 and 49 years, while approximately a quarter of the poor population is over 65 years of age (nearly 30% in the case of women).

Finally, when the situation in Spain is compared to its neighbouring countries we can see how the poverty rate is

quite high. It is three points above the EU-15 poverty rate and nine, six and four points higher than in Scandinavian countries, France and Germany respectively.<sup>16</sup>

### Regional Income Distribution

In order to complete our analysis of income distribution in Spain, we must study spatial distribution. We will begin by reviewing the main trends to later focus on the pattern observed in recent years.

In the first place, GDP per capita in Spain has slowly but irregularly converged with that of the European Union over the past few decades, reaching 94.6% in 2002 (see Table 10) and is currently close to the level of the EU25. GDP per capita was only higher than the EU25 average in the regions of Madrid, Navarra, the Basque Country, Catalonia and La Rioja. In addition to this, GDP per capita was considerably lower than in Europe in Asturias, Galicia, Andalusia and Extremadura.

In the second place, GDP per capita has also converged across Spanish regions as a result of both buoyant economic activity and interregional and international migratory flows, migration initially and immigration in recent years. In any case, regional population changes have always been a factor that has historically played a significant role in reducing regional disparities. On the other hand, it is also worth highlighting that both national economic policy and European structural policy helped to reduce regional income per capita inequalities in Spain. As a result, it could be said that regional inequality in

<sup>16</sup> This is still the case despite the poverty threshold in purchasing power parity being lower in Spain. See "Estudio descriptivo de la pobreza en España" elaborated by the INE.

Spain is on a par with that in other European Union member states.

Table 10: GDP per Capita in 2002 (UE-25=100) in Purchasing Power Parity

ANDALUSIA	71.1
ARAGON	101.7
ASTURIAS	80.7
BALLEARIC ISLANDS	117.1
CANARY ISLANDS	89.0
CANTABRIA	91.9
CASTILLA Y LEON	87.8
CASTILLA-LA MANCHA	76.0
CATALONIA	112.3
VALENCIA	90.7
EXTREMADURA	61.6
GALICIA	74.7
MADRID	126.7
MURCIA	81.1
NAVARRA	119.6
BASQUE COUNTRY	117.1
LA RIOJA	106.7
CEUTA	81.6
MELILLA	82.0
<b>SPAIN</b>	<b>94.6</b>

Source: own elaboration with data from INE

In the third place, as far as the personal distribution of income by region is concerned, there has also been a certain degree of convergence, although this trend was much more pronounced in the 1980s than it has been since<sup>17</sup>. As a result, the Spanish regions whose level of inequality was below the national average in 2000 were Navarra, the Basque Country, Murcia and Castilla-La Mancha. In contrast, Andalusia, the Canary Islands, Cantabria and Madrid record higher inequality rates than the national average. Therefore, it does appear to

<sup>17</sup> See Ayala, L., A. Jurado and F. Pedraja (2005), "Desigualdad y bienestar en la distribución intraterritorial de la renta, 1973-2000", Instituto de Estudios Fiscales, P.T. N° 6/05.

be a clear relationship between a region's level of income and its inequality rate. In addition to this, Ayala, Jurado and Pedraja (2005) find that social wellbeing is higher in the regions of Madrid, Catalonia and Navarra, while Andalusia and Extremadura are the regions with the lowest level of wellbeing. Social wellbeing has improved in recent years in Asturias, Castilla y Leon and Galicia as a result of the population ageing, which has been offset by income transfer programmes being developed.

In the fourth place, in recent years (more precisely between 2000 and 2005) regional differences in terms of GDP per capita have continued to decrease (see Table A.I at the end of this report). As a result, GDP per capita was more evenly distributed across regions in 2005 than it was in 2000.

Table A.II at the end of this report shows how four of the five regions with the lowest level of GDP per capita in 2000 (Extremadura, Andalusia, Galicia and Asturias) are among those that have recorded increases with respect to the national average. Only Castilla-La Mancha, which had a low level of GDP per capita in 2000, has not recorded practically any improvement.

Furthermore, six regions recorded decreases in GDP per capita in relative terms (with respect to the national average), four of which are among the regions with the highest level of GDP per capita in Spain: La Rioja, Catalonia, the Balearic Islands and Madrid. However, different trends are observed in the other two regions where income per capita was above the EU25 average in 2002: the Basque Country improved its standing, while Navarra remained unchanged. Only the Canary Islands and the Valencia region lost positions

despite recording GDP per capita below, although near to, the national average in 2000.

It is also particularly important to analyse what has most influenced the evolution of relative GDP per capita: either economic activity (that is, GDP growth) or population changes. Once again, as can be observed in Table A.II, demographic changes are vital when it comes to understanding the pattern followed by regional disparities.

With the exception of Cantabria, all the other regions that have witnessed improvements in GDP per capita with respect to the population recorded less economic growth than in Spain as a whole. Out of all of these regions, GDP growth was only above average in Andalusia (and Cantabria). The two regions that had a high level of GDP per capita in 2000 and have improved their situation since then (Aragon and the Basque Country) did so as a result of low levels of population growth (in both cases) and near average (Aragon) and slightly below average (the Basque Country) GDP growth). Furthermore, Navarra, a region with high income per capita, maintained its position in relative terms despite the low level of population growth together with near average GDP growth.

On the other hand, the high rate of population growth explains both why GDP per capita decreased in Madrid and remained unchanged in Murcia despite regional GDP recording above average growth rates in both cases.

Finally, strong population growth in other regions has coincided with modest increases in economic activity, resulting in these regions losing ground in relative terms. This is the case of the Balearic Islands, Catalonia, Valencia

and the Canary Islands. The first two foregoing regions displayed above average income per capita in 2000 (and have maintained that level), while in the case of the Canary Islands and Valencia, income per capita has fallen further below the Spanish average over this period.

Silviano Esteve  
Valencia, 29 November 2006

Table A.I: GDP, Population and GDP per Capita in Spanish Regions (2000-2005)

	GDP mp Current Prices (Percentage Distribution)		Population as of July 1 Based on 2001 Census (Percentage Distribution)		GDP per Capita Current Prices Spain = 100	
	2000	2005	2000	2005	2000	2005
	ANDALUSIA	13.3%	13.8%	18.1%	17.8%	73.7%
ARAGON	3.1%	3.1%	3.0%	2.9%	104.5%	107.5%
ASTURIAS	2.2%	2.2%	2.6%	2.4%	83.6%	88.9%
BALLEARIC ISLANDS	2.6%	2.5%	2.1%	2.2%	123.2%	110.1%
CANARY ISLANDS	4.0%	4.0%	4.2%	4.4%	94.8%	90.6%
CANTABRIA	1.2%	1.3%	1.3%	1.3%	93.5%	98.6%
CASTILLA Y LEON	5.5%	5.4%	6.1%	5.7%	90.5%	94.9%
CASTILLA-LA MANCHA	3.4%	3.4%	4.3%	4.3%	78.6%	78.3%
CATALONIA	18.9%	18.8%	15.5%	15.8%	121.8%	119.3%
VALENCIA	9.7%	9.6%	10.0%	10.6%	96.5%	91.5%
EXTREMADURA	1.7%	1.7%	2.6%	2.5%	63.7%	67.4%
GALICIA	5.2%	5.1%	6.7%	6.3%	77.7%	81.0%
MADRID	17.6%	17.7%	13.0%	13.5%	136.0%	130.9%
MURCIA	2.4%	2.5%	2.9%	3.0%	83.9%	83.1%
NAVARRA	1.7%	1.7%	1.4%	1.3%	127.3%	127.1%
BASQUE COUNTRY	6.3%	6.2%	5.1%	4.9%	122.5%	127.2%
LA RIOJA	0.8%	0.7%	0.7%	0.7%	113.9%	108.2%
CEUTA	0.2%	0.1%	0.2%	0.2%	85.2%	90.5%
MELILLA	0.1%	0.1%	0.2%	0.2%	84.4%	87.8%
<i>SPAIN</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
Spain (absolute terms)	<i>630,263,000</i>	<i>904,323,000</i>	<i>40,264,162</i>	<i>43,398,190</i>	<i>15,653</i>	<i>20,838</i>

Own elaboration with data from INE: Regional Accounts

Table A.II: GDP, Population and GDP per Capita Growth in Spanish Regions (2000-2005)

		POPULATION GROWTH		
		Below Average	Near Average	Above Average
GDP GROWTH	Below Average	Castilla-Leon (B, +) Galicia (B, +) Basque Country (A, +)	La Rioja (A, -) Ceuta (B, +)	Balearic Islands (A, -) Catalonia (A, -) Comunidad Valenciana (B, -)
	Near Average	Aragon (A, +) Asturias (B, +) Navarra (A, ≈) Extremadura (B, +)	Castilla-La Mancha (B, ≈) Melilla (B, +)	Canary Islands (B, -)
	Above Average	Andalusia (B, +)	Cantabria (B, +)	Madrid (A, -) Murcia (B, ≈)

Note: own elaboration based on Table A.I. References in brackets indicate both whether GDP per capita increased (+), decreased (-) or remained unchanged (≈) in relation to GDP per Capita in Spain as well as whether GDP per capita was below (B) or above (A) GDP per capita in Spain in 2000.

## 4.- GERMANY & FRANCE

### 1. Personal Income Distribution

As regards personal income distribution, on examining Table 1 we can conclude that both France and Germany have reduced overall inequality in income distribution since the late 1970s. In both cases, the two indexes under consideration, the Gini and Atkinson Indexes, have witnessed significant decreases. Nevertheless, it is worth making some clarifications. In the first place, Germany has recorded lower levels of inequality than France both at the beginning and the end of the period. In the second place, despite inequality decreasing more quickly in France than in Germany, the former has not been able to match the level of equality in latter. In the third place, while attempts to reduce inequality in France appear to have mainly occurred in the 1990s, in Germany a great effort was made in the 1970s, which was offset in subsequent years. Inequality increased after the reunification of Germany in 1990, prolonging the trend that had begun even before this occurred, a pattern that was corrected from 1994 onwards. In fact, the level of inequality in Germany is higher than in 1981.

Moreover, the decrease in inequality displayed by the Gini and Atkinson Indexes is not observed in income percentiles, which we believe is a clear sign that the decrease mentioned above is minimal. Therefore, both in the case of France and Germany, the income percentiles considered are generally speaking, slightly lower in 2000 than at the beginning of the period, or even higher, as in the case of the 90/10 percentile in Germany.

Table 1: Income Inequality

Year	Indexes		Percentiles		
	Gini	Atkinson	90/10	90/50	80/20
France					
1979	0.293	0.074	3.47	1.87	2.22
1981	0.288	0.071	3.40	1.88	2.25
1984	0.292	0.074	3.46	1.93	2.27
1989	0.287	0.074	3.46	1.82	2.24
1994	0.288	0.069	3.54	1.91	2.23
2000	0.278	0.064	3.45	1.88	2.23
Germany					
1973	0.271	0.063	3.22	1.81	2.12
1978	0.264	0.060	3.11	1.78	2.06
1981	0.244	0.050	2.89	1.79	2.03
1983	0.260	0.056	3.11	1.79	2.10
1984	0.268	0.064	3.20	1.73	2.10
1989	0.257	0.058	2.99	1.73	2.02
1994	0.272	0.064	3.39	1.82	2.16
2000	0.264	0.059	3.29	1.77	2.11

Source: 2000 Luxembourg Income Study

In any case, the size of the decrease in inequality in these two countries should not be underestimated, as OECD member states (see Table 2) on average witnessed a slight increase in inequality over the 1980s and 90s. This table confirms that both France and Germany have reduced inequality over the years under analysis and also display a below average level of inequality for the OECD in all the periods under consideration.

Table 2: Inequality in the OECD – Gini Index

	Mid 1980s	Mid 1990s	2000
Australia	31.2	30.5	30.5
Austria	23.6	23.8	25.2
Canada	28.7	28.3	30.1
Czech Republic		25.7	26.0
Denmark	22.8	21.3	22.5
Finland	20.7	22.8	26.1
France	27.6	27.8	27.3
Germany		28.3	27.7
Greece	33.6	33.6	34.5
Hungary		29.4	29.3
Ireland	33.1	32.4	30.4
Italy	30.6	34.8	34.7
Japan	27.8	29.5	31.4
Luxembourg	24.7	25.9	26.1
Mexico	45.1	52.0	48.0
Netherlands	23.4	25.5	25.1
New Zealand	27.0	33.1	33.7
Norway	23.4	25.6	26.1
Poland		38.9	36.7
Portugal		35.9	35.6
Spain	36.7	33.9	32.9
Sweden	19.9	21.1	24.3
Switzerland			26.7
Turkey	43.5	49.1	43.9
United Kingdom	28.6	31.2	32.6
United States	33.8	36.1	35.7
Average	29.3	30.9	31.0

Source: OECD

One variable that is normally taken into consideration when studying inequality together with the dispersion indexes analysed above, is the poverty rate. Table 3 presents the values of these rates at various levels of poverty for France and Germany since the 1970s. In the case of France, all the levels of poverty have witnessed decreases which are greater the more demanding the poverty threshold considered. As regards Germany, various ups and downs are observed in the trend displayed by poverty rates. Nevertheless, between 1973 and 1989 there was a decrease in poverty rates that was later offset and which has led to Germany having higher poverty rates than in 1973. The obvious conclusion is

that the reunification has led to a marked increase in the level of poverty in Germany.

Table 3: Relative Poverty Rates

	France			Germany		
	40	50	60	40	50	60
1973				3.6	6.7	12.2
1978				3.1	6.5	11.7
1979	4.2	8.2	14.5			
1981	4.7	7.3	13.4	2.6	5.3	10.6
1984	4.2	7.4	13.1	4.0	7.9	14.1
1989	4.8	8.9	15.5	3.2	5.8	11.4
1994	3.4	8.0	14.1	4.5	8.2	13.6
2000	2.8	7.3	13.7	4.7	8.3	13.2

Note: Three levels of poverty are considered: 40, 50, and 60% of the disposable income median

Source: 2000 Luxembourg Income Study

Table 4 once again makes it possible to compare this variable in France and Germany in 2000 to the rest of countries in the OECD. As can be appreciated, both countries record poverty rates that are below the average for the OECD, regardless of whether the rate is measured as 50% or 60% of the income median.

Table 4: Poverty Rate in the OECD in 2000

	50% of Disposable Income	60% of Disposable Income
Australia	0.09	0.19
Austria	0.07	0.14
Belgium	0.08	0.13
Canada	0.10	0.16
Czech Republic	0.04	0.10
Denmark	0.04	0.10
Finland	0.05	0.11
France	0.07	0.14
Germany	0.08	0.14
Greece	0.09	0.15
Hungary	0.07	0.14
Ireland	0.11	0.21
Italy	0.14	0.22
Japan	0.14	0.20
Luxembourg	0.06	0.12
Mexico	0.22	0.28
Netherlands	0.06	0.14
New Zealand	0.08	0.16
Norway	0.08	0.15
Poland	0.099	0.162
Portugal	0.15	0.22
Spain	0.13	0.20
Sweden	0.04	0.08
Switzerland	0.07	0.12
Turkey	0.16	0.23
United Kingdom	0.11	0.19
United States	0.17	0.24
Average	0.098	0.166

Source: OECD

When studying inequality, the information provided by other variables apart from those mentioned up to now is also normally taken into consideration, such as the percentage of people who live in homes where nobody works. This information is included in Table 5, which shows how both France and Germany are worse off than the countries in the hard core of the EMU (EU15). While this variable has decrease in these countries since 1995, both France and Germany display

increases in the percentage of people aged between 0 and 17 years, while the age group that includes 18-59-year-olds remained unchanged. This phenomenon, which is due to the seriousness of the economic crisis over the years under analysis, is only compatible with a decrease in inequality such as that observed above when social welfare is far-reaching.

Table 5: Percentage of Persons Living in Homes where Nobody Works

	0-17 and 18-59 years of age					
	France		Germany		EU15	
	0-17	18-59	0-17	18-59	0-17	18-59
1995	9.2	11.0	8.3	10.6	11.0	11.5
1996	9.6	10.9	9.1	10.9	11.2	11.5
1997	10.1	11.4	10.2	11.4	11.2	11.5
1998	9.8	11.3	10.0	11.1	10.8	11.1
1999	9.9	11.3	9.5	10.5	10.4	10.5
2000	9.4	10.7	9.0	9.7	9.7	9.9
2001	9.2	10.3	8.9	9.7	9.4	9.7
2002	9.6	10.4	9.3	10.0	9.8	9.7
2003	9.5	10.6	10.3	10.6	9.9	9.8
2004	9.6	10.8	10.9	11.1	9.8	9.8
2005	9.5	10.7	11.1	11.1	9.6	9.8
2006	9.5	10.9	10.5	10.6	9.4	9.6

Source: Eurostat

## 2. Spatial Income Distribution

In order to analyse spatial income distribution in France and Germany, we are going to examine some indexes that capture the regional dispersion of employment, GDP and unemployment. As regards the regional dispersion of unemployment rates, both France and Germany are below the average for the EU15 in terms of regional deviation, which is proof that job creation is more evenly distributed than in neighbouring countries. However, while regional differences in the unemployment rate decreased in the EU15 from 1999 to 2005, in France and Germany a slight increase has been witnessed.

Table 6: Regional Dispersion of Unemployment Rates

Variation Coefficient of Regional Unemployment Rates

	France	Germany	EU15
1999	7.1	5.5	13.9
2000	6.9	5.7	13.4
2001	8.3	6.1	13.1
2002	8.0	5.9	12.5
2003	7.2	6.0	11.9
2004	7.1	6.2	11.1
2005	7.3	5.6	10.9

Source: Eurostat

Regarding the regional dispersion of GDP, the Gini Index for France was below the average for the OECD in 2002, while Germany recorded exactly the same score, albeit higher than in those countries nearby. As a result, regional GDP differences in France and Germany do not appear to be greater than the average for the OECD. As far as regional unemployment dispersion is concerned, France scored 0.13 in the Gini Index, while the average for the OECD was 0.18. The Gini Index score for Germany was unavailable. However, it is a well-known fact that the unemployment rate in the eastern landers is much higher than in the western landers: the unemployment rate in the east has been above 18%, at least over the past three years, while the overall unemployment rate is much lower (see corresponding section in this report). This leads us to conclude that despite the lack of dispersion measure to confirm the situation, the level of regional unemployment inequality in Germany is very high.

Table 7: Regional GDP and Unemployment Dispersion Gini Index

	GDP 2002	Unemployment 2003
Australia	0.10	0.18
Austria	0.15	0.14
Belgium	0.19	0.24
Canada	0.13	0.32
Czech Republic	0.14	0.22
Denmark	0.13	0.14
Finland	0.12	0.20
France	0.12	0.13
Germany	0.15	
Greece	0.10	0.17
Hungary	0.18	0.18
Ireland	0.15	0.11
Italy	0.14	0.43
Japan	0.08	0.11
Mexico	0.30	0.18
The Netherlands	0.10	0.09
New Zealand		0.14
Norway	0.11	0.13
Poland	0.19	0.14
Portugal	0.15	0.14
Spain	0.12	0.24
Sweden	0.05	0.12
Switzerland		0.22
Turkey	0.28	0.22
United Kingdom	0.17	0.21
United States	0.14	0.12
Average	0.15	0.18

Source: OECD

### 3. Functional Income Distribution

As regards function income distribution, the share of wages and the gross operating surplus in French value added has remained remarkably stable, as was to be expected. As a result, wages represented 58.3% of value added in 1993 and 58.2% in 2005. In reference to the gross operating surplus, a slight increase has been observed over the sample period from 30.1% in 1993 to 30.7% in 2005.

Table 8: Share of Value Added in France

	Wages	GOS
1993	58.3	30.1
2000	57.9	30.7
2005	58.2	30.7

Source: INSEE

Finally, Germany is a completely different picture. Over the sample period (2002 to 2006) that coincides with the economic crisis, the wage share dropped from 70.68% to 66.2%. As a result, the percentage corresponding to capital and corporate gains has risen from 29.31% to 33.79%.

Table 9: Share of National Income

	Wages	Capital and Corporate Gains
2002	70.68	29.31
2003	70.86	29.13
2004	68.04	31.95
2005	66.27	33.72
2006	66.20	33.79

Source: DESTATIS and own elaboration

### References:

Beblo, M. and T. Knaus (2001): "Measuring Income Inequality in Euroland", *Review of Income and Wealth*, 47-3, p. 301-320.

Förster, M and M. Mira d'Ercole (2005): "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s", *OECD Social Employment and Migration Working Papers*, n° 22.

Antonio Cutanda  
Valencia, 29 November 2006

## 5.- UNITED KINGDOM

This section is devoted to the analysis of income and wealth distribution in the United Kingdom. First, we look at the

trend displayed by various income distribution indicators (deciles, Gini Index, decile ratios) and the impact of taxes and social benefits as instruments used to correct income inequality. We also describe how and how many people have moved up or down in terms of income distribution over time. Second, developments in extreme inequality are analysed by means of poverty indicators, focusing our attention on the most sensitive groups, that is, children and pensioners. Third, we analyse wealth distribution as an alternative source of household resources. Finally, we describe the regional distribution of disposable income in the United Kingdom.

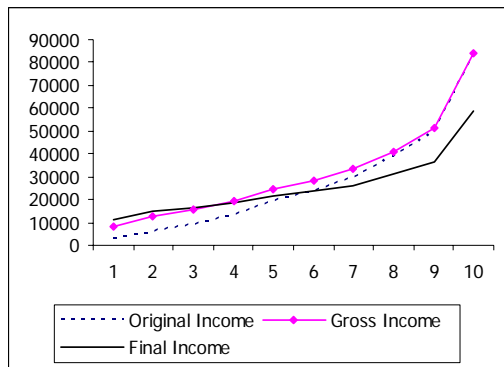
### Taxes and Social Benefits Significantly Redistribute British Household Income

Original income is that received by households directly (mainly through work, returns on savings or investment). Gross income includes original income as well as both direct social benefits (contributory benefits such as pensions and non-contributory benefits such as the child benefit, housing benefit or income support) and indirect benefits (tax credits). Disposable income comes from gross income less direct taxes (income tax, social security contributions, and council tax). Finally, final income includes benefits in kind (school meals and welfare milk, national health service, travel subsidy). Distinguishing between original, gross, disposable and final income is important when it comes to describing income distribution, as it makes it possible for us to evaluate the role that taxes and social benefits play in redistributing household income.

Figure 1 displays the average income distribution for British households by

decile groups in 2004/05 for the three levels of income redistribution described above.<sup>18</sup> The gross income line is always higher than the original income line and this difference becomes more pronounced in the lower deciles. The final income line shows how the lower half of income distribution gains following taxes and benefits, while the last four deciles have less income than at the beginning of the process.

Figure 1: Average Annual Income by Decile, 2004/05 (pounds sterling)



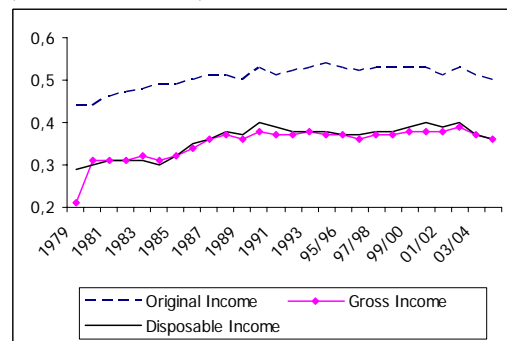
Source: ONS

### Income Inequality Peaks in 2000/01 - Highest Level Since at Least 1961

Figure 2 displays the Gini Index scores for original, gross and final income over the period 1979-2005. While no comparisons should be made on a year to year basis, trends can be observed over the period under analysis. As was to be expected, original income displays the highest degree of inequality, as it does not take into account the redistributing effect of taxes and social

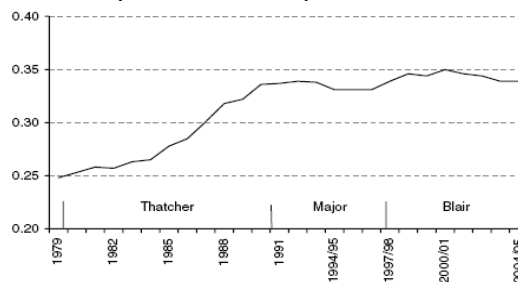
benefits. Gini Index scores tended to change very similarly in the case of all three types of income throughout the period. Inequality increases from 1979 until 1993 when it stabilises. The eight years of Labour government did little to reduce income distribution inequality. In fact, income inequality, measured by the Gini Index, reached its peak in 2000/01, since at least 1961. Gini Index scores have dropped over the past three years, although it still to early to forecast a change in trend.

Figure 2: Gini Index by Income Type (1979-2004/05)



Source: ONS

Figure 3: Gini Index for Disposable Income (1979-2004/05)



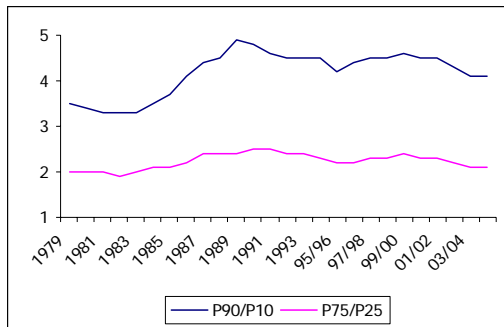
Source: DWP, Family Expenditure Survey and Family Resource Survey

Figure 3 shows the pattern of the disposable income ratio using two different measurements, P90/P10 and P75/P25. Generally speaking, the trends are very similar to those observed with the Gini Index. Since the all-time high of 4.9 in the P90/P10 ratio in 1990, a decrease is appreciated

<sup>18</sup> National Statistics, "The effects of taxes and benefits on household income, 2004/05" (<http://www.statistics.gov.uk/pdfdir/t&b0506.pdf>)

towards its current level of 4.1. This figure stands out with respect to scores of 4.4 and 4.6 in 1996/7 and 1999/2000 respectively. The P75/P25 ratio compares less extreme values of income distribution. As a result, fluctuations are less pronounced. This ratio recorded a score of 2.0 in 1979 and currently stands at 2.1, have peaked at 2.5 in 1990 and 1991 to later drop slightly to 2.2 in 1996/97, before rising again to 2.3 in 2001/02. The ratio has since then dropped to its lowest level since the first half of the 1980s.

Figure 4: Disposable Income Ratios (1979-2004/05)



Source: ONS

Table 1 displays weekly disposable income by decile together with the average and media before and after taking into account housing costs for the years 1994/95 and 2004/05.<sup>19</sup> Real disposable income increased in all deciles between 1994/5 and 2004/5, although the data for the top deciles are markedly subject to measurement error and should be interpreted with caution. When housing costs are not included, the income in the third decile registers the largest rise, while deciles 8 and 9 are those that have risen the least (except for the first decile which is not representative within the sample).

<sup>19</sup> DWP, Household Below Average Income HBAI, 2004/05. (<http://www.dwp.gov.uk/asd/hbai.asp>)

The median rose by 24% between 1994/5 and 2004/05, while the average rose by 25% before including housing costs. If housing costs are taken into account, the median increased by 32% and the average by 35% over the decade dating from 1995 to 2005.

Table 1: Weekly Disposable Income Distribution in Pounds Sterling (2005)

Decile	Excl. Housing Costs			Incl. Housing Costs		
	94/95	04/05	Diff. %	94/95	04/05	Diff. %
1	121	141	17	71	91	28
2	161	205	27	116	161	39
3	192	245	28	142	203	43
4	224	285	27	176	242	38
5	261	327	25	211	283	34
6	304	372	22	250	328	31
7	352	428	22	294	379	29
8	414	500	21	348	447	28
9	503	608	21	424	548	29
10	723	897	24	615	820	33
Median	282	349	24	230	304	32
Average	341	427	25	278	375	35

Source: DWP, Family Resource Survey 2004/05

### Highest Incomes Strongly Resist Change over Time in Income Distribution

Two highly interesting aspects of income distribution are how an individual's income changes over time and how many individuals move along the income distribution scale over time. Table 2 presents data concerning movements in income over the period 1991-2004.

Table 2: Income Distribution Position of Individuals Most of Their Time with Respect to 1991 (1992-2004)

	Original Position in 1991 Quintile Groups					All Individuals
	Q1	Q2	Q3	Q4	Q5	
A	6	1	1	0	12	4
B	41	24	20	24	40	30
C	48	35	24	14	...	24
D	...	16	26	33	41	23
E	6	28	29	29	7	20
	100	100	100	100	100	100

- A. The same quintile all years
- B. The same quintile most years
- C. Above their 1991 quintile most years
- D. Below their 1991 quintile most years
- E. None of the above

Note: Income is adjusted for household size and structure and is measured before taking into account housing costs.

Source: DWP, Low Income Dynamics, BHPS 1991-2004

On the whole, only 4% of the population has remained in the same quintile group in which they were included in 1991 throughout the 14-year period under analysis. Those who were positioned in the highest quintile group in 1991 display the greatest resistance in terms of remaining in the same quintile, while the intermediate quintile groups record the lowest percentage of people who remained in the same income group. We can also see how the three intermediate quintiles in 1991 are less prone to remain unchanged over the majority of years of the sample than the first and fifth quintiles.

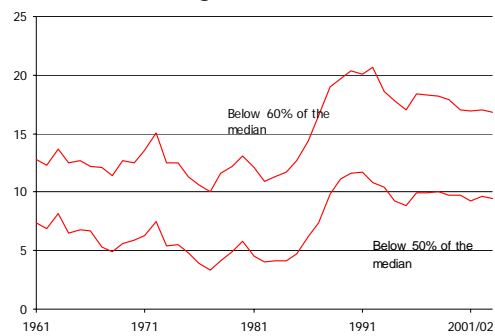
### Labour Government Makes Significant Progress in Combating Poverty

Households Below Average Income (HBAI), elaborated by the Department for Work and Pensions, is a publication used mainly to analyse the number and composition of households that live in poverty, that is, those that receive less than a certain critical amount of

income. This threshold is usually set at 60% of the median or the value that represents 50% of income distribution. Figure 5 displays the relative poverty trends in the United Kingdom since 1961. The graph includes a threshold of 60% of the income median and another of 50% of the median. While in the 1960s and 70s poverty tended to decrease, a markedly upward trend in poverty was observed in the 1980s. A downward trend in poverty has been observed since the mid 1990s.

Table 3 reveals how poverty rates differ depending on whether or not housing costs are included. In historical terms, poverty rates are higher after taking into account housing costs as income distribution is concentrated towards the right when income includes housing costs.

Figure 5: Proportion of People Whose Income is Below Various Fractions of Median Household Disposable Income (Before Housing Costs)



Source: ONS (1961-1993/94) and DWP, HBAI 2004/05

Table 3: Relative Poverty in the United Kingdom: Proportion of the Population Whose Income is Below 60% of the Income Distribution Median

	Before Housing Costs	After Housing Costs	Population (in millions)
96/97	18.4	24.8	55.6
97/98	18.3	23.8	55.7
98/99	18.2	23.7	55.9
99/00	17.9	23.5	56.1
00/01	17.0	22.6	56.2
01/02	16.9	21.9	56.4
02/03	17.0	21.6	56.6
03/04	16.8	21.0	56.8
04/05	16.1	19.9	57.1
Average Annual Change	-1.6	-2.7	

Source: DWP, HBAI 2004/05

### Infant Poverty Records All-time Low in 2004/05

The Blair Government aimed to eradicate infant poverty by 2020, reducing infant poverty by 25% in 2004/05 and by 50% in 2010/11 with respect to 1998/99. In 2004/05, infant poverty had decreased by 700,000 since 1998/99, registering one of the lowest levels since the 1980s. However, the government fell short of its intermediate objective for 2004/5 by some 100,000 children if income does not include housing costs and by 400,000 if it does. It is nevertheless difficult to assess the causes of this error of projection on behalf of the government as statistics are not very precise (for example, some 800,000 children live in a range of less than 5% of the poverty line defined as 60% of the income distribution median). The marked decrease in the number of children in households without work and the decrease in the number of this type of households and single parent households with one part-time job that

are poor are behind the fall in infant poverty. This has occurred despite the increase in the proportion of children in single parent households, the group which is most affected by poverty. The government can take some merit of these favourable results due to significantly increasing transfers and social benefits to the households most affected by infant poverty. Table 4 shows how the proportion of children who are poor has changed over time. A downward trend is observed from 1998/99, following a continuous increase in the 1980s and the early 1990s.

Table 4: Relative Infant Poverty: Proportion of Children Whose Income is Below 60% of the Income Distribution Median

	Before Housing Costs	After Housing Costs	Population
96/97	24.9	33.3	12.7
97/98	24.7	32.4	12.7
98/99	24.5	32.5	12.7
99/00	23.4	31.9	12.7
00/01	21.0	30.3	12.7
01/02	20.7	29.6	12.6
02/03	20.8	28.3	12.6
03/04	20.5	27.8	12.5
04/05	19.5	27.2	12.5
Average Annual Change	-3.0	-2.5	

Source: DWP, HBAI 2004/05

Table 5 offers a breakdown of infant poverty by single parent and dual parent households. More precisely, the table shows the change in the number of children, the change in the proportion of children belonging to single parent households and the change in the risk of poverty among children belonging to both single parent and dual parent households over the period dating from 1998 to 2005.

Estimations include housing costs. The number children has dropped by 140,000 between 1998 and 2005, the proportion of children in single parent families has risen by 1.6% since 1998, reaching 24.5% in 2005, infant poverty affects single parent households (60.5% in 1998 and 48.1% in 2005) two and a half times more than in dual parent households (24.2% in 1998 and 20.4% in 2005). The last three columns offer a breakdown of the 700,000 child decrease in infant poverty between 1998 and 2005 in three components. Firstly, how much the population affects infant poverty depends on the change in the total number of children and the average risk of belonging to the group of the poor. The decrease in the number of children reduced infant poverty by 42,000 between 1998 and 2005. Secondly, the size of the effect of belonging to a specific type of household depends on the risk of infant poverty of each type of family and the proportion of children in each type of household. The decrease in the risk of poverty among single parent households reduced infant poverty by almost 370,000 between 1998 and 2005 and among dual parent households by almost 365,000. Finally, the size of the household structure effect depends on the proportion of children in each type of family and whether or not the risk of poverty is above or below the average for all children. The increase in the number of children in single parent households pushed up infant poverty by 66,000 between 1998 and 2005.

Table 5: Breakdown of Change in Infant Poverty (Income after Housing Costs)

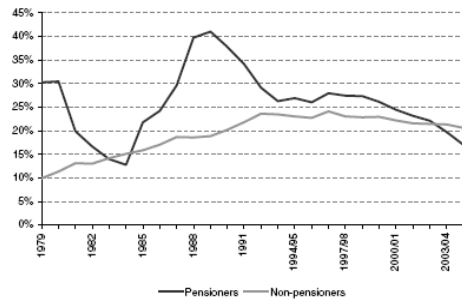
	% of Infant Population		Poverty Rate		Effect (1,000s)		
	1998/1999	2004/2005	1998/1999	2004/2005	Structure	Incidence	Population
Single Parent Family	22.8	23.7	60.5	48.1	50	-370	-320
Dual Parent Family	77.2	19.9	24.2	20.4	15	-364	-348
Infant Population	100	100	32.5	27.2	66	-735	-669
Population Change							-42
Poverty Change							-711

Source: DWP, HBAI 2004/05

### Pensioners are More Affected by Poverty than Non-Pensioners since 2002/3

Poverty has always been considered to affect the retired more than the rest of the population. As Figure 6 below illustrates, this has almost always been the case, with the exception of 1984. The continuous decrease in the poverty rate since 1996/97 has managed to invert the situation of pensioners with respect to non-pensioners in 2003/2004.

Figure 6: Poverty among Pensioners and Non-Pensioners (Income after Including Housing Costs)



Source: DWP, HBAI 2004/05

Table 6 shows how poverty has affected pensioners since 1996. A quick decrease can be observed that became even more pronounced in 2003/4 and 2004/5, reaching the lowest level since the second half of the 1980s, despite the number of pensioners continuing to increase. It is important to discern whether the fall in poverty among pensioners is due to changes in the make-up of the pensioner population (young cohorts replacing older cohorts) or a decrease in the “risk” of poverty among those that have retired. Since 1996, the risk effect has dominated that stemming from the change in population. When considering the almost 11-point decrease in the poverty rate, the fall within each cohort accounts for 8.3 percentage points (75% of the total). The risk effect is greater among cohorts born in the periods 1916–20, 1921–25 and 1931–35. The effect of the change in the population explains 2.7 percentage points or 25% of the total decrease in the poverty rate. This suggests that the government has contributed a significant amount of public funds towards reducing the impact of poverty among the elderly.

Table 6: Relative Poverty among People Aged 65 and Over: Proportion of Pensioners whose Income is Below 60% of the Income Distribution Median

	Before Housing Costs	After Housing Costs	Population
96/97	22.1	27.9	9.9
97/98	22.7	27.4	10
98/99	23.7	27.3	10
99/00	22.6	26.1	10
00/01	21.9	24.4	10.1
01/02	22.8	23.2	10.1
02/03	22.2	22.1	10.2
03/04	21.0	19.7	10.2
04/05	19.5	17.0	10.3
Average Annual Change	-1.5	-5.9	

Source: DWP, HBAI 2004/05

### Wealth Distribution is Much More Uneven than Income Distribution

Income is not the only measurement of purchasing power. Wealth, asset property that may or may not generate income is another source of resources and can also be used to assess the level of inequality in society. Table 12 describes how wealth has developed from 1976 to 2002<sup>20</sup> using various distribution measurements and the Gini Index. The Gini Index for wealth rose gradually from 66% in 1976 to 71% in 2002, although it has remained relatively stable since 1997. The proportions of wealth in the hands of the adult population have also tended to rise, particularly among the top 5% and 10% groups of the rich. In both cases, their share of total wealth has risen by 7%.

<sup>20</sup> Inland Revenue Statistics, table 13.5 ([http://www.hmrc.gov.uk/stats/personal\\_wealth/table13\\_5.pdf](http://www.hmrc.gov.uk/stats/personal_wealth/table13_5.pdf))

Table 7: Wealth Distribution

	1976	1987	1996	2000	2002
Top 1%	21	18	20	23	24
Top 2%	27	25	27	31	31
Top 5%	38	37	40	44	45
Top 10%	50	51	52	56	57
Top 25%	71	74	74	75	75
Top 50%	92	91	93	95	94
Gini Index	66	66	68	71	71

Source: Inland Revenue Statistics

Gini Index scores indicate that wealth is more unequally distributed than income. If we take the most unfavourable measure of income to gauge inequality in 2002/3, the Gini Index stands at 53% (Expenditure and Food Survey). This percentage is far from as high as the 71% registered by wealth.

### London Still Has the Highest Level of Disposable Income per Capita

The most recent data available to be able to carry out a detailed analysis of spatial disposable income distribution by region refers to 1999. Income data, measured by the disposable income households channel to consumption or saving, is taken from the National Accounts.<sup>21</sup> In 2003, this income in per capita terms amounted to £17,181. The region with the highest level of income per capita was London (£20,575) and the lowest were observed in Wales, Northern Ireland, the Northeast and Yorkshire.

A simple real convergence analysis of disposable income per capita based on sigma convergence (calculation of the standard deviation of income across

<sup>21</sup>National Statistics, "Regional, sub-regional and local area household income", (<http://www.statistics.gov.uk/pdfdir/reg0302.pdf>)

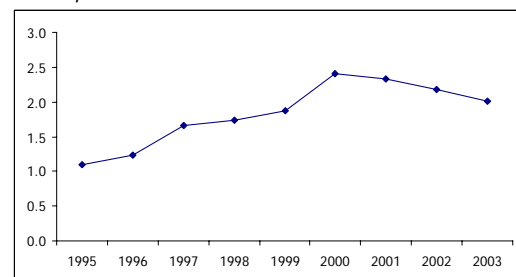
regions for each year) revealed that regional inequalities increased over the period 1995-2000 and decreased between 2001 and 2003. Over the sample period as a whole, income inequality across regions has increased, such that the rich regions have become richer (London, the East and the Southeast) and the poor regions poorer (Wales, Northern Ireland, the Northeast).

Table 8: Disposable Income per Capita Measured on a Regional Basis (NUTS-2), 1995 and 2003 (2003 euros)

Region	1995	2003
UK	11767	17181
Northeast	10864	14519
Northwest	10751	15583
Yorkshire	10882	15603
East Midlands	10960	16007
West Midlands	12483	15631
East	13933	18638
London	12842	20575
Southeast	11907	19693
Southwest	10719	17086
Wales	11435	14991
Scotland	10635	16124
Northern Ireland	11767	14682

Source: ONS

Figure 9: Sigma Convergence in Disposable Income per Capita 1995-2003, NUTS-3.



Source: own elaboration with data from Eurostat-Regio

### Has Inequality and Poverty Been Reduced during Blair's Term of Office?

We are going to conclude this report with a brief analysis of the eight years of labour government and its aim to provide society with a higher Standard of living. Average income rose by 2.4% in real terms on a yearly basis between 1996/97 and 2004/05 (the median was 2.2%). This growth in income is slightly higher than that observed during the conservative government between 1979 and 1996/7 when average income increased by an average annual 2.1% (the median was 1.6%). The difference in the growth in average and median disposable income suggests that the growth model during the labour period was more balanced than during the conservative period.

Income inequality measured by the Gini Index displays an erratic pattern during the labour government. In the first legislature, the Gini Index rose in three of the four years. In the second term of office, the Gini Index dropped in three of the four years. The overall effect is that the level of income inequality has remained unchanged since 1996/7. However, this opinion is somewhat premature as the way inequality is measured seems to affect conclusions. When income inequality is measured by the P90/P10 ratio, which does not take into account the richest and poorest deciles of society, inequality has decreased since 1996/7, proving that income distribution has been more equal among the majority of the population.

Reducing poverty is undoubtedly a significant step forward in the fight to eliminate income inequality. In this sense, the Labour Government has been relatively successful. Both infant

and pensioner poverty have dropped substantially since 1996/7.

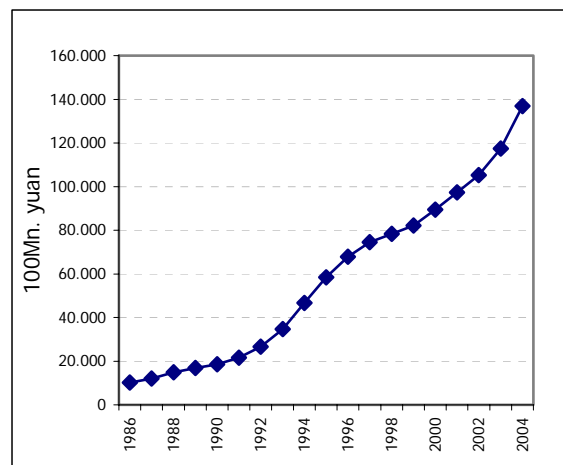
Finally, disposable income per capita is quite unequally spread across British regions. These differences appeared to increase between 1996 and 2003, although such inequalities have tended to decrease since 2001.

Francisco Requena Silvente  
Valencia, 26 November 2006

### 6.- China

Before dealing with the main issue of this monograph, it is worth briefly revising how the country has developed as we relieve this is a crucial point when it comes to understanding the social scenario. Little more than 10 years ago, the Chinese economy was behind that of Spain or Brazil. In only 15 years, GDP has multiplied by five (Figure 1). Furthermore, income per capita has doubled every decade since 1979<sup>22</sup> (Figure 2).

Figure 1: GDP Trend

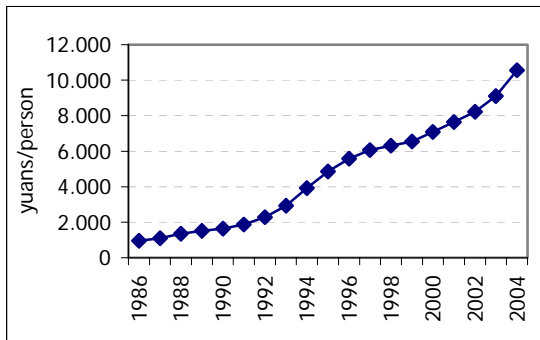


Source: National Bureau Statistics

<sup>22</sup> This figure has doubled every 50 years in the US and Great Britain

At the end of 2005, China became the fourth largest economy in the world with a trade surplus of 102 billion dollars, foreign investment that amounted to 60 billion and reserves totalling 820 billion. However, China is still 107th in terms of income per capita. In short, with a population of slightly more than 1.3 billion inhabitants, over 100 million are poor.

Figure 2: GDP per Capita



Source: National Bureau Statistics

The country is undergoing a complete transformation at all levels and this is resulting in significant social changes. The most striking are listed below:

- Employment in state-run companies has diminished in favour of the private sector. This has sparked a considerable increase in the unemployment rate, which varies a great deal depending on the source consulted and could stand around 20% in the provinces where the state was responsible for a significant share of employment.
- The population is ageing markedly; nearly 11% of inhabitants consider they are senior citizens
- Migratory flows to cities growing at an uncontrollable rate. At the end of 2005, cities accounted for 43% of the total population (See graph on page 1: reports by geographical region, China, November 2006.). Half of

China's population is forecast to live in cities by 2010, that is, a tenth of the world's population.

- The health system is deficient. Only 20% of the population are guaranteed medical aid, which accounts for half the urban population and only 15% of those living in rural areas.

Such social changes together with the precarious labour legislation that is current in force<sup>23</sup> are the main reasons behind the increasingly significant inequalities in the country. The government has already begun to consider reforming the income distribution system in order to combat the growing divide between the rich and the poor that can be appreciated in many parts of society. This reform would initially only affect those working for the public sector. The results of such enormous social differences can be appreciated in the following spheres of activity:

1. **Education:** differences are not only visible between cities and rural areas, but also between private and public education. Theoretically speaking, the nine years of obligatory schooling are free: the central and provincial governments cover 2% and 11% of education costs respectively, while the rest is paid for by local governments. However, in reality this is not the case. Households must contribute towards expenses as basic as transport, water, electricity etc. As a result, rural households that lack sufficient means have no access to public education. Furthermore, rural teachers belong to the poorest social group in the country.

<sup>23</sup> Only two out of every 10 people working for private companies have a contract

The scenario is completely different in cities. Nowadays, 98.58% of children attend primary school and 90% make it to the first half of secondary school. This is due investment in education increasing year after year. Education expenditure rose by 0.22 percentage points between 2002 and 2003 to 3.41% of GDP.

2. The main features of the **labour market** are: unemployment, precariousness, lack of regulation and safety...The fact that most workers lack a contract deprives them of rights that are as basic as that to receive a wage. The sectors in which rights are most frequently violated are real estate, textiles, light industry and hotels and restaurants. Moreover, official unemployment data fail to show real situation<sup>24</sup>. According to unofficial sources, unemployment in China exceeds 10% on a national basis and is as high as 12% in cities (25-35 million people). Furthermore, underemployment (street trade, construction and private services) affects 80 million people in cities and 150 million in rural areas.

The most developed cities are being invaded by the rural population that have lost their land and have migrated in search of subsistence. Between 120 and 150 million peasants are estimated to be living in cities in absolutely precarious conditions: low wages, appalling labour conditions, lack of social security and discrimination.

As a result, Shenzhen for example has grown from a population of 1.65 million to 10.25 million in less than a year.

<sup>24</sup> Official data include only urban unemployment, excluding workers that have been dismissed from State-run companies and the rural population

Logically, the city's productive structure cannot grow fast enough to absorb this demand.

Another important issue when it comes to understanding the precarious situation of the migrant population is that only those who have a residence enjoy rights (public education, medical aid, unemployment benefit, retirement pension...). The authorities have not acknowledged the residence of most of the migrants, which means they lack all basic rights. In addition to this, a growing "black market" has emerged in order to illegally obtain residence certificates.

This discrimination is even worse in the case of women. Generally speaking, Chinese women do worse paid and less stable jobs than men.

At present, central government officials are trying to eliminate these differences by means of professional training and judicial policies including:

- Guaranteeing migrants a minimum wage
- Guaranteeing this group a contract that regulates their labour conditions
- Offering training and social security services

On the other hand, in order to limit the exodus, rural taxes have been reduced in recent years and some action has been taken to protect farmland, together with investment in education and health in urban areas. However, the measures are not enough to offset the poor performance of farm labour.

3. There are important differences in terms of **income** between rural and urban areas that are growing every year. While income per capita last year

in cities amounted to €1,049, in rural areas it stood at only €325, up by 9.6% and 6.2% respectively. Being a peasant is directly equivalent to being poor and this is entirely accepted by the Chinese population.

Even the inequalities that can be found within the cities and rural areas are significant:

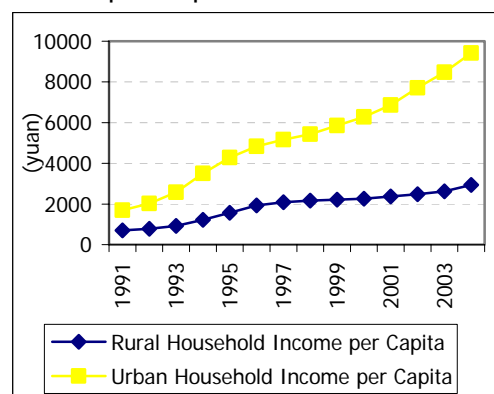
- In the city, the poorest group of people receives 20 times less income than the richest group. This is not only due to the disparity of wages across industrial sectors, but also to the imbalance between what businessmen and employees earn.
- In rural areas, income differences between normal peasants and the poorest rose from 1:2.45 in 1992 to 1:4.12 in 2003<sup>25</sup>.

China lacks a mechanism to adjust income. According to a recent study by the Chinese Ministry of Finance, the Gini Index is currently on the verge of international alarm at 0.46. However, a rise in this index has coincided with an ongoing increase in GDP and a decrease in the number of needy due to an improvement in the absolute income of the poorest people. As a result, authorities believe this index cannot be interpreted separately from the urbanisation and industrialisation the country is undergoing.

The Gini Index measures income disparity across the entire population without distinguishing place of residence (0 equals optimum equality and 1 is the most alarming level). In China there are two clear social levels: the rural and urban population (Figure 3). For this reason, if the Gini Index

were estimated for cities, it would drop to 0.319 (it was 0.16 in 1978) and 0.366 in rural areas (0.21 in 1978), according to data from 2002. Furthermore, we must clarify the fact that around 800 million people live in rural areas.

Figure 3: Urban and Rural Household Income per Capita



Source: National Bureau Statistics

Official surveys indicate that the richest people in China include new business people and those in show business. Meanwhile, the socially isolated group is made up of the unemployed and poor farmers.

4. Inequality is also becoming more and more pronounced **on a geographical basis**. This is mainly the case between special economic regions and coastal provinces (Beijing and Guandong) on the one hand and inland and northern provinces on the other. Chinese authorities have taken steps in recent years to attempt to eliminate these differences:

- The Western Region Development Strategy was passed in 1999, which is mainly aimed at improving infrastructure, promoting investment and private sector involvement and protecting the environment.

<sup>25</sup> Rios, X. (2006): "China: El déficit social", Política Exterior.

▪ The strategy called "9+2" was passed recently which is aimed at extending regional cooperation in investment and trade across the southern, western and central provinces as well as eliminating the obstacles to labour mobility in the entire region.

Despite all these figures, we should note that poverty has fallen to almost a tenth in comparison to the figure 25 years ago (from 250 million to 28). However, this rapid improvement has slowed down in recent years from six million/year in the 1990s to only 2 million/year who escape poverty in the new century.

The Chinese government considers all those who earn less than 21 cents (of a dollar) a day poor. Meanwhile, those earning less than one dollar a day are considered poor by the international community. If the second measurement is used, poverty would affect around 17% of the population instead of the 2-3% announced by the government.

Table 1 displays the poverty trend in China according to information supplied by the World Bank, which establishes the poverty threshold at one dollar a day.

**Table 1: Poverty Trend**

Year	Percentage of Poor People		Total Poor People (in Millions)	
	1990	2000	1990	2001
China	33%	16.6%	379	167

Source: World Bank

As can be appreciated above, poverty has decreased quickly and has coincided with strong economic growth and a considerable increase in the social inequalities in the country. China is currently one of the most unequal countries in the Asian-Pacific region.

M<sup>a</sup> Luisa Martí  
Rosa Puertas  
Valencia, 29 November 2006.

## 7.- México

### Inequality and Poverty

Inequality and poverty are different terms, but closely related. Inequality mainly focuses on how evenly the income generated is distributed, while poverty, taking the concept as extreme, is a lack of minimum income needed to cover the basic goods and services required for survival.

In Mexico, the categories of inequality and poverty have been linked, mainly due to the type of information that is generated. However, it must be indicated that when poverty increases, so does inequality normally. Hence, both indicators are closely related.

No matter what data on income distribution and poverty in Mexico is consulted, regardless of whether different methodologies are used, the country has a serious problem in this aspect.

### Measuring

The source of information most commonly used in Mexico to measure both income distribution and poverty is the *Encuesta Nacional de Ingreso Gasto de los Hogares* (National Household Income Expenditure Survey – hereafter referred to as ENIGH). Employment Surveys and Population Censuses also have information on this issue.

The ENIGH is currently carried out on a two-yearly basis in years with even numbers and dates back to 1992. Furthermore, the methodology used has suffered few changes over the years, which makes it possible to carry out comparisons. The exception was the survey carried out in 2005, as it was also carried out in 2004.

### Markedly Unequal Income Distribution

INEGI released the results of the 2005 National Survey of Household Income and Expenditure (ENIGH in Spanish) at the end of September following methodological adjustments related to demographic conciliation with regard to the second population count of the same year. The information encompasses the period dating from 2000 to 2005.

Using this information as a basis, it is worth highlighting that total household income increased in real terms by an almost unnoticeable 0.8% on average per year over the five-year period under consideration.

Money receipts account for 80.6% of total income, while non-monetary goods or services represent the remaining 19.4%. Wages account for the best part of the monetary receipts (64.1%), followed by the earnings of the self-employed (18.4%).

Table 1: Monetary Income Distribution (2005)

Concept	%
Wages	64.1
Self-Employed Workers' Income	18.4
Transfers	10.6
Capital Gains	6.8
Other	0.1

Source: elaborated with data from INEGI

The wages variable is the most important. The high percentage of transfers (10.6%) is mainly due to the large amount of family remittances sent by Mexicans working in the United States.

The survey also sheds light on another interesting aspect. Although employee wages have lost ground relative terms, they still account for the highest percentage of monetary income at 64.1% in 2005, whereas in 2000 the figure stood at 63.7%.

### Income Distribution by Decile

As regards income distribution by household decile group, the poorest decile receives only 1.6% of total income, while the richest decile enjoys 36.4%, as can be observed in the table below. Distribution is, therefore, markedly unequal.

Forty per cent of Mexican households live in poverty, as will be discussed later in this report. As a result, if we add the four first deciles of the table below, that is, the poorest 40% of households in 2005, the percentage of total income received only rises to 13.4%.

Table 2: Distribution of Average Quarterly Total Current Income by Household Decile Group (2000-2005)

Decile	2000	2002	2004	2005
I	1.52	1.65	1.65	1.64
II	2.65	2.92	2.94	2.93
III	3.62	3.91	3.97	3.92
IV	4.61	4.93	4.98	4.91
V	5.73	6.13	6.03	5.97
VI	7.12	7.44	7.36	7.36
VII	8.87	9.24	9.13	9.14
VIII	11.26	11.83	11.63	11.66
IX	16.00	16.38	16.10	15.97
X	38.62	35.56	36.19	36.49
Total	100.0	100.0	100.0	100.0

Source: own elaboration with data from INEGI

This leads us to the conclusion that the richest 10% of households receives 2.7 times more income than the poorest 40%.

The last few decile groups (the richest) account for more than half the income generated by the country (52.5%).

The poorest decile witnessed a significant improvement between 2000 and 2002, rising from 1.52% to 1.65%, a level that has remained practically unchanged up to 2005. This means that the poorest segment of the population continues to receive the same share of income as five years ago.

The highest income-earning decile, on the other hand, has lost ground, its share of total income dropping from 38.6% in 2000 to 36.5% in 2005. This tenth of the Mexican population concentrates a third of total income.

The large and marked differences in income have remained practically unchanged throughout the period. The highest income-earning decile receives 23 times more income than the poorest decile.

## Gini Index

This index aims to measure income concentration and takes values between zero and one. The closer the score to one, the more inequality present in a country or, in other words, the closer a score is to zero, the less inequality there is.

Table 3: Gini Index for Mexico (2000-2005)

Year	Gini Index
2000	0.480
2002	0.453
2004	0.455
2005	0.458

Source: elaborated with data from INEGI

The figures in the table above reveal a significant decrease in only two years, when the Gini Index fell from 0.480 in 2000 to 0.453 two years later.

However, from 2002 onwards, income concentration has increased gradually, as can be observed by the rise in the Index from 0.453 in 2002 to 0.458 in 2005.

## Household Spending

In 2005, monetary spending accounted for 77.4% of total expenditure and non-monetary expenditure for the remaining 22.6%.

Current monetary expenditure rose in real terms by 0.36% on average per year over the five-year period. The variables to register the largest increases between 2000 and 2005 were housing (20.4%), health (18.9%) and clothing and footwear (11.8%).

Table 4: Distribution of Household Monetary Expenditure (2005)

Concept	%
Food	29.8
Transport	18.9
Education and Leisure	14.8
Housing	9.8
Cleaning	6.6
Clothing and Footwear	6.1
Health	3.5
Other	10.5

Source: elaborated with data from INEGI

Mexican households spend the most on food, with a share of 29.8% of the total, followed by transport with 18.9% and education and leisure with 14.8%. These three items account for 63.5% of total household spending.

### Poverty

The term “poverty” is relative. It changes over time and depends on the geographical region and culture. There is no universal agreement as to one sole measurement. However, regardless of which measurement is used and the number of people affected, we should be concerned if only one person is in this situation. We cannot and should not accept this reality.

Perhaps the most commonly used methods to measure poverty are the “Unsatisfied Basic necessities”, the “Poverty Line” and the “Quality and Quantity of Life.”

In Mexico, as in the rest of countries, there is no one definition of poverty that is universally accepted. As a result, discussion and debate continues.

Poverty contains multidimensional and multifactorial aspects. However, speaking broadly and simply we could say that poverty is not having a minimal amount of goods to subsist.

This is normally associated to the perception of insufficient income to purchase goods and services, which leads to a given level of wellbeing.

More recent approaches indicate that inequality regarding the opportunity to access income-generating assets, including health, housing, wealth and education should also be taken into account when measuring poverty.

The so-called Poverty Line is a common way of measuring poverty in Mexico. The Poverty Line measures monetary poverty, consisting basically in situating the current income required to satisfy a person's minimal needs. This method does not measure whether or not basic needs are satisfied, but the means necessary to achieve such satisfaction.

Three definitions aimed at analysing the problem of poverty proposed by the Secretariat of Social Development have been recently accepted:

**Food Poverty:** households whose per capita income is insufficient to cover basic food requirements. This type of poverty would be the equivalent of the concept of “abject poverty”.

**Capacity Poverty:** households whose per capita income is less than that necessary to cover basic food, health and education expenditure.

**Wealth Poverty:** households whose per capita income is lower than what is considered necessary to cover food, clothing, footwear, housing, health, public transport and education expenditure.

It is worth remembering that the poverty problem is not circumstantial but structural, which means it must be fought in the long term.

### Poor People

Progress has undoubtedly been made in the fight against poverty, particularly in the long term, as the advances in the short and medium term, if this is the case, are often minimal. For example, in the 1950s almost 90% of the population was estimated to live in poverty and three fifths in abject poverty.

There are periods in which the fight against poverty suffers setbacks or stagnates, which obviously coincide with economic crises or periods of low growth in Mexico. The table below presents the poverty trend in Mexico from 1992 to 2005.

Table 5: Percentage of Poor People in Mexico (1992-2005)

Year	Food Poverty	Capacity Poverty	Wealth Poverty
92	22.5	28.0	52.6
94	21.1	29.4	55.6
96	37.1	45.3	69.6
98	33.9	40.7	63.6
00	24.2	31.9	53.7
02	20.3	27.4	50.6
04	17.3	24.6	47.0
05	18.2	24.7	47.0

Source: Statistics Appendix of the 6th Government Report and INEGI

Poverty is linked to the lack of economic development or the deterioration suffered during times of crisis. For example, following the crises in 1982 and 1994, the level of poverty rose considerably.

In the table above, we can see how all three indicators increased substantially between 1994 and 1996. Food poverty increased from 21.1% to 37.1%; capacity poverty from 29.4% to 45.3%; and wealth poverty from 55.6% to 69.6%.

Two years later, the economic scenario began to stabilise and the indicators decreased to the lowest percentages recorded in the entire period under analysis. In 2005, 18.2% of the population suffered food poverty, 24.7% capacity poverty and 47% wealth poverty.

Despite the decrease described above, the level of poverty in Mexico remains excessively high. Almost half of the population (47%) is in a situation of poverty (approximately 49 million people) and 17.3% in abject poverty (approximately 19 million people).

According to the table above, 1996 was the year that recorded the highest level of poverty over the period under study. Following this, a downward trend is observed and in 2005 the level of poverty dropped below that recorded in 1992.

### Urban Poverty

More than four fifths of Mexico's population live in cities. On breaking down poverty into urban and rural areas, we find, as was to be expected, that the latter suffer more from poverty than cities.

Table 6: Percentage of Poor People in Cities in Mexico (1992-2005)

Year	Food Poverty	Capacity Poverty	Wealth Poverty
92	13.5	18.4	44.0
94	9.7	17.1	43.6
96	26.5	35.0	61.9
98	21.3	29.0	55.8
00	12.6	20.2	43.8
02	11.4	17.4	41.5
04	11.0	17.8	41.0
05	9.9	15.8	38.3

Source: Statistics Appendix of the 6th Government Report and INEGI

As in the previous case, the marked increase in poverty stems from the last serious crisis in the Mexican economy at the end of 1994.

Figures for 1996 reflect this situation in which abject poverty increased from 9.7% to 26.5% of the total population. Total poverty rose from 43.6% to 61.9%.

However, the problem is not as serious in cities if compared to rural areas.

### Rural Poverty

Table 7: Percentage of Poor People in Rural Areas in Mexico (1992-2005)

Year	Food Poverty	Capacity Poverty	Wealth Poverty
92	35.6	41.8	65.0
94	36.8	46.2	72.0
96	52.4	60.2	80.8
98	52.1	57.6	74.9
00	42.4	50.0	69.3
02	34.8	43.9	65.4
04	27.6	35.7	56.9
05	32.3	39.8	61.8

Source: Statistics Appendix of the 6th Government Report and INEGI

The problem of poverty mainly arises in rural areas. The percentages in each category are considerably higher than those recorded in cities.

Once again, indicators climb sharply as a result of the crisis in 1994, which is echoed by the data for 1996, before later decreasing.

In 2005, 32.3% of the rural population lived in abject poverty, almost double the national average. Government policies attempting to tackle this problem have mainly targeted this sector of the population.

### Poor Households

Table 8: Percentage of Households in Poverty in Mexico (1992-2004)

Year	Food Poverty	Capacity Poverty	Wealth Poverty
92	17.4	21.8	44.1
94	16.1	22.7	46.8
96	28.8	36.5	60.8
98	26.8	32.9	55.6
00	18.6	25.3	45.9
02	15.8	21.8	43
04	13.7	19.8	39.6

Source: Statistical Appendix of the 6th Government Report

The household poverty trend is practically identical to those observed for people as described above, which is logical considering that households are the sum of people.

During the crisis poverty was also seen to increase and vice-versa, poverty diminished during periods of stronger economic growth.

However, we believe that economic growth alone is not enough to eradicate the high level of poverty. Economic growth should be accompanied by government policies specifically aimed at attending the most socially isolated groups.

Poverty is also associated with a shortage of employment, or in the best of cases, with extremely low level of productivity, which is reflected by the income earned. The lack of income results in a shortage of savings and, in turn, investment and economic growth.

In order to escape this vicious circle, groups isolated from development require support, but also need to be provided with instruments to improve their levels of productivity and

competitiveness, which would result in higher levels of wages and greater purchasing power.

Empirical evidence proves that higher growth leads to more jobs and less poor people.

### **Government Policy**

The government policy aimed at combating poverty was characterised by benefit schemes that remained in force until the end of the 1970s and which was labelled a “universal approach”.

From the 1980s onwards, such benefits have been replaced by focused expenditure through a direction scheme aimed at aiding the lowest income earners. The philosophy of this system is that when resources are limited, they should be specifically channelled to the target population.

Examples of these schemes include the “National Solidarity Programme”, implemented at the end of the 1980s and the beginning of the 1990s, which later became “Make Progress”, a programme which following a few modifications became the programme of “Opportunities”, which is still in force today. However, the change of government is likely to result in the programme being modified, at least its name.

The current political scenario in Mexico makes it vital for government policy to be focused on combating poverty as the main and priority issue both in economic and political terms. If not, the country’s economic, political and social stability would be put at risk.

It must be made crystal clear that poverty is a structural problem rather than circumstantial, as mentioned previously. As poverty is multi-

dimensional, government policy should be aimed at all of them: employment, security, health, education, political participation, etc.

Benefit programmes should be accompanied by policies that promote economic growth and development. Increasing economic growth, better distributing wealth and enhancing social development (drinking water, drainage, health, education, electricity, etc.) should be basic elements of government policy.

Government economic policy must be aimed at combating poverty in order to try and alleviate the situation.

Public sector policies that stimulate growth and those aimed at fighting poverty should not be separate, but rather be implemented together and be closely related.

Policies should be aimed at raising the population’s nutritional level and providing greater access to credit or financial instruments in order to boost the creation of life insurance and medical and unemployment benefits in the most socially isolated segments of the population.

When it comes to designing government policy, it is of primary importance to bear the opinion of the poor in mind. Public policy should be accompanied by inclusion policies, due to the fact that poor people, just for being poor, are on many occasions excluded or discriminated.

The gap between the rich and the poor in Mexico is become increasingly large in geographical terms. The north of Mexico is industrialised, with modern financial systems and closely linked to the US economy. Meanwhile, the south suffers from marked poverty, is

underdeveloped and lacks the necessary infrastructure to develop towards a higher level of wellbeing.

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