CHAPTER 10

Financialisation and inequality in the semi-periphery: Evidence from Portugal[1]

1. Introduction

Despite being a disputed concept in the literature (van der Zwan, 2014), financialisation broadly refers to the growing weight of finance in modern economies. This salient trend has been visible in various countries since the 1980s, fostered by the deregulation of the financial system and the liberalisation of the cross-border movement of capitals (Stockhammer, 2012). [i]

In Barradas, Lagoa, Leão & Mamede (2018), we have dealt with the various features of financialisation (or financed-dominated capitalism) in Portugal. A key element, also stressed by Rodrigues, Santos & Teles (2016, 2020), is the strong growth in household and Non-Financial Corporations (NFC) indebtedness from 1995 to 2009, leading to one of the highest indebtedness rates among euro area countries in 2009. From the mid-1990s, the growth of bank credit fed one of the fastest growths in the financial sector in the EU and, by 2009, Portugal had one of the highest shares of finance and insurance activities as a percentage of GDP amongst euro area countries. The weight of financial assets relative to GDP increased from nearly 450% in 1995 to over 700% in 2011, indicating indirectly the accumulation of financial rents (Cingolani, 2013), which are, according to Kalecki, (cited by Power, Epstein & Abrena, 2003) the income earned by owners of financial institutions and of financial assets. The growth in financial services meant that a growing fraction of the economy's profits were coming from financial corporations: between 1997 and 2008, the Gross Operational Surplus (GOS) of financial corporations rose from nearly 12% to more than 23% of the total GOS of Portuguese firms (including both financial and non-financial corporations).

[1] Lagoa, S, Barradas, R. (2021), "Financialisation and inequality in the semi-periphery: Evidence from Portugal" in Santos, A. and Teles, N. (eds), Financialisation in the European Periphery: Work and Social Reproduction in Portugal, Routledge, September. https://www.routledge.com/Financialisation-in-the-European-Periphery-Work-and-Social-Reproduction/Santos-Teles/p/book/9781138341944

Santos & Teles (2016) show that households increased their involvement with the financial system not only as debtors (especially through mortgage credit) but also as financial asset's holders (especially in the form of deposits and pensions and life insurance funds). Financialisation also drives changes in NFC's behaviour, notably the rise of financial receipts, due to higher engagement on financial activities, and the rise of financial payments in order to satisfy impatient capital (Hein, 2012). In Portugal, dividends paid and received by NFC as a percentage of GOS had a positive trend between 1995 and 2008, notably over the period of 2004 to 2008.

Due to the global financial crisis and the change in the growth strategy, several indicators of financialisation declined between 2008 and 2017, notably the indebtedness of corporations (bank credit, other loans, and securities), which went from 146.5% of GDP to 135.5%, and above all household debt, which fell from 92.0% to 72.4%.

Therefore, the financialisation process was particularly visible between 1995 and 2008 – alternatively, the final year can be considered 2009, depending on the indicator used. Given the decline in GDP in 2009, we choose to define the period of stronger financialisation as between 1995 and 2008 to assess whether there was an increase in the inequality of income distribution in this period.

The growing weight of finance may increase inequality and poverty in Portugal for several reasons. Firstly, indebted households and corporations are more exposed to changes in interest rates and to business cycles. Indeed, after 2008, non-performing loans rose considerably in the segments of credit to consumption and to some industries, showing the difficulties that economic agents experienced during the economic crisis. Remarkably, households with excess debt have more difficulty in adjusting to falling wages, to a rise in unemployment, and to a fall in gains from trading financial products and selling their houses and are, therefore, more likely to have financial difficulties or even fall into poverty. Although debt and financial assets are more concentrated in high- and middle-income households, under severe conditions the latter may also fall below the poverty line.

Secondly, the poorest households may not benefit from the growth in credit or, when they do, the financial conditions are worse. The unequal access to both house mortgage and to fiscal benefits for house purchase has meant that low income households benefited less from the house price upward trend, which contributed to increase income and wealth inequality, despite subsidised interest rates targeted to young low-income individuals in access to mortgage credit (Martins &

Villanueva, 2006). On the financial assets side, in Portugal, like in other European countries, the richer households hold more financial assets (Santos & Teles, 2016), which allows them to benefit more from asset prices booms.

Some of the middle and lower classes that were able to access credit and that were severely hit by the economic crisis, ended losing their houses to the bank and had to find alternative housing in a narrow rental market. After the economic crisis, there was a pressure for an increase in housing rents due to small house supply and increasing demand from foreign households and holiday home rental.

Thirdly, the increased political power of finance may have led to a reduction in wages and to poorer working conditions through several channels, notably the shareholder orientation in firms' management, which causes also a reduction in trade union power – these mechanisms will be developed in Section 4. To aggravate the situation, financialisation all over the world pressures for a retrenchment of the welfare state, with a reduction in social and pension benefits, increasing financial payments by households, and privatisation of public corporations. The idea of an asset-based welfare becomes more important, and individuals should own assets (financial, real estate, and human capital) to accommodate difficulties, with the responsibility for covering risks moving from the State to the individual (Finlayson, 2009). In Portugal, we do not observe a reduction of social protection. Instead there is an increase of such expenditure during the period of financialisation (Rodrigues, Santos & Teles, 2018), which is associated to the late consolidation of the welfare state. Nevertheless, that does not mean that financialisation did not hamper, in some degree, the expansion of State intervention in social and connected areas. Some important examples in which such effects occurred are the increase of the share of total health expenditure supported by the private sector (mostly households) - from 29.52% in 2000 to 33.35% in 2017, [ii] the emergence of private firms in the water provision system (Teles, 2015), and the favouring of private provision of housing (Santos, Serra & Teles, 2015) and of pensions (Rodrigues et al., 2018).

Finally, the effects of finance-dominated capitalism in Portugal are not restricted to the period of growth in finance, as they include the creation of conditions for subsequent crisis. The growth in the financial sector produced serious fragilities in the sector (low capital and liquidity ratios and a high concentration of credit in the real estate area - households, construction, and real estate firms) and ultimately made the economy more vulnerable to the financing in international markets

(Barradas et al., 2018). Those fragilities contributed to the Portuguese sovereign debt crisis in 2011, which resulted in a severe austerity programme, negotiated with the Troika, aimed at internal devaluation (reduction in wages) and fiscal austerity, with cuts in social benefits and pensions, stalling of collective bargaining, and labour market reforms with adverse consequences for workers. The support of some banks (BPN, BANIF, and BES) with public money, ultimately deepened the crisis.

Thus, for several reasons, the financialisation process is often associated with increasing income inequality, both in terms of functional and personal income distribution (Baiardi & Morana, 2018; Clarke, Xu & Zou, 2006; Hein, 2012, 2015). The former is related with the distribution of income between production factors (capital and labour) and the latter with the distribution of income among individuals. We will discuss each of these in turn. Both phenomena are of growing importance in contemporaneous societies due to their negative impacts in economic, social, and political areas, as recent events have shown. Nevertheless, inequality issues have received little attention from mainstream economics. One notable exception is Piketty (2014), who argues that in the last century the economic progress has not delineated a reduction in inequalities as predicted by the Kuznets curve. The average return of capital has been stable and higher than the average economic growth, indicating that capital owners are growing richer and quicker than the remaining population. Milanovic (2016) argues that in some industrialised countries there is a second Kuznets cycle of upward income inequality from 1980, due notably to globalization and free movement of capital, technological change and rents from technological innovations, policy changes weakening the welfare state (the move from Keynesian to neoliberal policies), and the movement of labour from manufacturing to services (which are more heterogenous).

In this Chapter we look at how the evolution of inequality in Portugal in the last years is related with financialisation. The second section analyses functional income distribution, looking at the wage share and rentier income. Section three focuses on personal income distribution and poverty. The fourth section approaches briefly other effects of financialisation and other factors explaining functional and personal income inequality and poverty. Finally, we present a broader discussion of the main conclusions.

2. Functional income distribution

Functional income distribution relates to the labour and the profit shares, more specifically, the portions of the national income that are channelled to workers through wages and to capital owners through profits, respectively. Despite the theoretical and empirical suggestion by mainstream economics that labour income and profit shares should remain stable over time (Kaldor, 1961), the decline in the former and the consequent rise in the latter have been common trends in the most advanced economies since the early 1980s (Dünhaupt, 2011; Lin & Tomaskovic-Devey, 2013; Stockhammer, 2012). Barradas (2019) stresses that this evolution was transversal to all EU countries, with the labour share being already less than 50% of the national income in 12 European countries (Czech Republic, Greece, Lithuania, Hungary, Poland, Romania, Slovakia, Latvia, Norway, Ireland, Malta, and Sweden).

From a theoretical point of view, the downward trend in the labour share implies a more unequal income distribution between workers and capital owners with several deleterious consequences, notably the rise of social tensions between workers and shareholders (Dünhaupt, 2011), the fall of aggregate demand in countries with a wage-led model (Dünhaupt, 2013), [iii] the erosion of financial sustainability of social security systems as they are typically financed by wages (Cichon et al., 2004), the rise of personal income inequality (Karanassou & Sala, 2013), and the heavy indebtedness of households to compensate for the fall in wages and to support consumption (Hein, 2012).

Some authors associate the downward trend of the labour income share with the financialisation processes occurring from the 1980s on, which produces a more unequal functional income distribution through three channels and various sub-channels (Hein, 2012, 2015).[iv] The first channel is associated with a change in the sectorial composition of economies, which operates through two different (and independent) sub-channels: the increasing importance of the financial sector and the decreasing weight of the public sector. Indeed, the growth of the financial sector pressures for a reduction in wage share as this sector is more capital-intensive than the non-financial sector (Hein, 2012). The reduction of the public sector leads to a similar outcome because it has a smaller profit share than the private sector (Dünhaupt, 2013) and its trade union membership is higher.

The second channel acts through the paradigm of ‘shareholder orientation’ that leads to the rise in profit and dividend claims by shareholders. These demands create a pressure to cut wages and other benefits to workers, and to engage more in financial activities, which reinforce the

growth of the financial sector (Crotty, 2005). Finally, the third channel involves the weakening of trade unions and workers' bargaining power, which operates through several different sub-channels, notably the aforementioned paradigm of 'shareholder orientation' in corporate governance and the increasing importance of finance (trade unions are weaker in the financial sector), see also Campos Lima (2020) and Lopes (2020)

In addition to financialisation and the decline in unions' power, technological progress and globalisation have contributed to the fall in labour income share (Dünhaupt, 2013). Effectively, technological progress has been capital-augmenting since the 1980s, thereby implying a substitution of low-skilled and unskilled labour by new technologies.

Globalisation has also been responsible for a fall in labour income share in the developed countries. The argument is in line with the Hecksher-Ohlin model, which using simplifying assumptions concludes that globalisation raises the return of the factor that is relatively abundant (capital in developed countries) and lowers the return of the nonabundant factor (labour in developed countries). The increase in world labour supply due to the participation of China in world trade pressured for a decline of wages in developed countries. In addition, globalisation has contributed to a deterioration of the bargaining power of workers.

A relatively small body of empirical literature has emerged in recent years to provide an econometric assessment of the impact of financialisation on functional income distribution (Dünhaupt, 2013; Lin & Tomaskovic-Devey, 2013; Barradas & Lagoa, 2017; Köhler, Guschanski & Stockhammer, 2018; Barradas, 2019). Most of these empirical studies find statistical evidence supporting the theoretical claim that financialisation has been a driver of the fall in the labour income share.

In the Portuguese case, the indicator usually used to assess functional income distribution, namely the adjusted wage share (the ratio of compensation of employees to GDP),[v] had a downward path from the late 1970s (Figure 1). Figure 1 shows the wage share at market prices and factor cost; we focus on the latter because it assesses the distribution of national income between labour and capital without considering state intervention through indirect taxes and subsidies**.** Five main subperiods are observed in the overall trend during the last sixty years (Lagoa, Leão, Mamede & Barradas, 2014). From 1960, when Portugal joined the European Free Trade Association (EFTA), to the early 1970s, the wage share rose gradually due to the rapid

industrialisation of the Portuguese economy. The Colonial War (1961-1974) also played a role by reducing the labour supply and increasing real wages.

Figure 1 – Adjusted wage share as percentage of GDP

In the revolutionary period of 1974-1976, real wages went up sharply in comparison to labour productivity as a result of both the need to improve labour and social conditions and radical left-wing oriented economic policies.

In the post-revolutionary period, the adjusted wage share registered a steep decline from 93.9% in 1976 to 60.4% in 1984. This was a period marked by international economic crises, rising external imbalances, and two adjustment programmes under the IMF (1977 and 1983), all forcing a drop in real wages. In contrast, between 1985 and 1992 the adjusted wage share increased to 68.3%, reflecting Portugal's strong economic growth in this period due to its adhesion to the European Union in 1986. The positive effect of GDP growth on the wage share is explained by the low levels of unemployment and rapid wage growth occurring when the economy is expanding (Estrada & Valdeolivas, 2012). Yet, such a direct connection may not always exist due to wage rigidity and delayed employment changes by firms because of adjustment costs and uncertainty in the business cycle (Willis & Wroblewski, 2007).

Indeed, from the mid-1990s and until 2003, the adjusted wage share remained stable even though an increase had been expected due to high GDP growth rates (until 2001). Besides wage and employment rigidities, this is probably explained by growth in credit and the financial sector, increasing financialisation of NFC, the privatisation of public firms, and increasing integration in the international economy. As mentioned above the growth of the financial sector, the financialisation of NFC, and the privatisation of public firms together reduced wage share. The integration in the global economy further pressured for lower wages due to imports from low-wage countries, delocalisation of firms, weakening of trade unions, and penetration of international financial capital seeking short term profits (Hein, 2012; Mamede, 2020).

A downward trend of wage share began in 2003, continuing until 2016 when it reached the minimum of 59.3%. Initially, this decline is explained by the slowdown of the Portuguese economy

from 2002 onwards, which produced an increase in unemployment from 5.0% in 2002 to 7.6% in 2008. The Portuguese sovereign debt crisis and the consequent adjustment measures implemented from 2011 onwards continued the downward trend in wage cuts. After the crisis, namely between 2017 and 2018, there was a slight recovery of 1.1 p.p. in the share of workers in income as a result of higher GDP and wages growth rates and a smaller unemployment rate.

In short, the increasing importance of finance from 1995 until 2008 was accompanied by a decline in the wage share only from 2003 onwards. It should be mentioned that other phenomena contributed to the reduction in the wage share from 2003 to 2016, notably the sovereign debt crisis, the reduction in union power (Table 4), the increase in competition from abroad (Table 4), and technological progress (although this was relatively small: total factor productivity grew 0.38% per year between 2003 and 2016 – data from AMECO).[vi] The reduction in the wage share would probably be larger if the remuneration of top management was removed from compensations, as they are closer to profits than to employees' remunerations.

Barradas and Lagoa (2017) estimate an aggregate labour income share function for Portugal, including control variables (technological progress – total factor productivity, degree of openness of the economy, education, and the business cycle) and four other variables to capture the aforementioned channels linked to financialisation (size of the financial sector – value added, government expenditure, shareholder orientation – interest and dividends paid by NFC relative to gross value added, and trade union density). They use annual data between 1978 and 2012 to estimate an Autoregressive Distributed Lag (ARDL) model.

They find that in the long-term while government activity, trade union density and education exert a positive effect on labour income share, international trade has a negative impact. They argue that financialisation contributes indirectly to the decline in labour share by weakening trade unions and reducing public spending.

Finally, financialisation by contributing to a decline of the labour income share can explain the weak economic dynamism in Portugal between 2000 and 2013. Portugal is characterised by a wage-led model (Onaran & Obst, 2016), which means that the decrease of wages has a detrimental effect on private consumption that is not compensated by the beneficial effects on investment and net exports.[vii] This suggests that the hypothesis of 'secular stagnation' in the era of financialisation could be materialised, with consequent rise of inequalities and poverty in the future.

Rentier income

If financialisation is at least in part responsible for the decline in the wage share observed in Portugal, then rentiers should be beneficiaries. To analyse the share of rentier income in the national income, as Dünhaupt (2011) did for Germany and the US, we start by noting that the net national income is:[viii]

Wages + (Operating Surplus) + (Indirect taxes) – Subsidies

Property income is paid out of the operating surplus, and corresponds to:

(distributed income of corporations) + Interests + Rents + (reinvested earnings of FDI) + (property income attributed to insurance policy holders)

If there was no 'rest of the world', the sum of the net property income (received minus paid) of households, financial and non-financial corporations, and the Government would be zero, as the income paid by one sector is received by another. For instance, when corporations pay dividends to households, there is an outflow from corporations (negative property income) and an inflow into households (positive property income), but for the sum of the two sectors the net property income is zero. Therefore, to obtain the rentier income we use the net property income of households only, as they are the recipients of the money paid by corporations and the Government.[ix] Thus, rentier income includes all the property income received by households (minus the one paid), including dividends distributed, interest, and rents.

Rentier income is a component of the net national income, which is obtained by:

(Rentier income) + (Compensation of employees) + (Operating surplus/mixed income of households) + (Primary income of Government) + (Primary income of non-financial and financial corporations)

Primary income of non-financial and financial corporations is approximately the retained earnings of corporations. Using this formula, we can assess the evolution of the other elements of the national income in comparison with the rentier income, notably the compensation of employees and the retained earnings of corporations.

Analysing Figure 2, we observe that property income has not registered an upward trend; in fact, it only grew significantly between 1977 and 1985, due to the increase in deposit interest rates (which reached a historical maximum in 1984-85). The high interest rates may also explain the strong decline in the gross primary income of corporations over the period 1977-86, which was actually negative in some years.

After a slight downward trend between 1995 and 2001, property income registered a gradual and slight increase between 2002 and 2008 (+2.7 p.p.). Employees compensation rose from 1995 to 2008 and was accompanied by a decrease in the gross primary income of corporations. In 2010, the sovereign debt crisis led to a profound change: employees' compensation decreased and retained earnings increased, while rentier income remained broadly constant. The increase in retained earnings was a response to the difficulty in obtaining banking financing for investment or working capital.

Figure 2 – Property income and its counterparts (in proportion of gross national income)

A closer analysis of the components of rentier income shows that whereas rents (rents on land, excluding housing rents) are insignificant, property income of insurance policy holders is quite important, ranging from 0.9% to 2% of national income since 1995 (Figure 3).[x] The two most important components of the rentier income - interest and dividends - had distinct evolutions. The interest share decreased from 1985 to 2010 in line with the fall in both interest rates and savings (directed to fixed income products).[xi] From 2011 to 2015, there was an increase in interest received, partly explained by the rise in the interest rates of deposits and government securities, due to the European sovereign debt crisis. On the other hand, distributed dividends (by listed and non-listed companies) showed an upward trend from 1995 to 2007 (+2.1 p.p.),[xii] followed by a downward trend until 2017 (-1.5 p.p.) explained by the aforementioned increase in retained earnings in response to the reduction in banking financing to firms. Thus, we can conclude that, from 2002 to 2007, the rise in the property income of households is explained primarily by the increase in dividends.

Figure 3 – Breakdown of primary income (as percentage of gross national income)

It is interesting to analyse whether the share of property income in Portugal is very different from other developed countries. Dünhaupt (2011) computes the rentier share for Germany and the US using the net national income discounting the consumption of physical capital. Our data are not directly comparable to these data because we do not deduct the consumption of physical capital due to the lack of data before 1995. For comparative purposes, we re-calculated the rentier income in proportion to the net national income from 1995.

Using the data in Dünhaupt (2011) for Germany, we observe that over the whole comparable period (1995-2008), the share of property income in Portugal was smaller than in Germany: in Portugal it reached a maximum of 8.6% of net national income and in Germany it ranged between 10.5% and 17%. In 2008, the indicator stood at around 17% in Germany and 8.2% in Portugal.[xiii] Property income was around 7% in both Portugal and the US in 2006 – the US data are from Dünhaupt (2011).

3. Personal Income Distribution and Poverty

Turning to personal income distribution, mainstream economics also emphasises that the growth in finance reduces inequality (in this case, typically measured by Gini coefficient). This relationship is justified on the grounds that financial development stimulates economic growth, eases access of the poorer households to financial resources (typically through credit), which allows them to increase their investments in own business or in training and education, and mitigates the fall of purchasing power in periods of high inflation through the access to non-fixed rate financial resources (Shahbaz, Loganathan, Tiwari & Sherafatian-Jahoromi, 2015).

Clarke et al. (2006) and Shahbaz et al. (2015) panel data econometric studies show that the growth in finance (measured by credit to private sector, liquid liabilities, and stock market capitalization as a share of GDP) reduces the Gini coefficient. However, Clarke et al. (2006) also show that in many contexts, the growth in finance only benefits the richest and leaves poorer households financially excluded and with many difficulties in accessing credit and/or other financial resources. Financial institutions tend to operate on the intensive margin, channelling

financial resources only to current clients and not looking for new ones (Baiardi & Morana, 2018). Indeed, some empirical studies that econometrically assess the impact of financialisation, measured either by the proportion of gross value added and employment of the financial sector (Assa, 2012) or by financial payments – interest and dividends – in percentage of corporate profits (Karanassou & Sala, 2013), concluded that financialisation increases inequality in personal income distribution.

In the Portuguese case, Antão et al. (2009) indicates that debts are asymmetrically distributed among families with a small fraction of middle- and upper-class families having a large proportion of overall debt. Likewise, Costa (2016) confirms that about 54% of households in Portugal have no debt and that 80% of total households' debt is mortgage credit for acquiring a main residence. Thus, the advantages of sound use of credit were not at the disposal of the poorer households.

But, to the best of our knowledge, there is no empirical study on the finance-inequality nexus for the Portuguese economy, which is probably due to the lack of long historical data on the Gini coefficient.

In fact, as there is no comparable series for Gini coefficient from 1980 onwards in Portugal, it is necessary to resort to several sources to obtain a complete picture of the whole period. Although different sources cannot be compared, they can be used to characterise the evolution of income inequality in the period for which they are available (Table A. 1 includes a summary of inequality indicators trends according with different sources).

Between 1980 and 1990, the inequality of income measured by the Gini coefficient decreased slightly from 33 to 32 (Gouveia & Tavares, 1995). The evolution is the opposite from 1989 to 1994 with the Gini coefficient of total monetary income going from 32.9 to 35.9 (Rodrigues & Andrade, 2013).[xiv] This significant increase occurs despite the rise in the wage share (Figure 1) and high GDP growth rates (except in 1993 and 1994), indicating that this growth was unequally distributed, as shown by the sharp increase in wage inequality – see Rodrigues *et al.* (2012). Besides the effect of the crisis of 1993, the increase in inequality may be the result of the liberalisation and privatisation of the financial sector, the disinflationary policy, the increase in international trade, and declining union power (see Table 4 for the two last indicators). We already explained above why the two last factors reduce wages, but the first two need additional explanation. Firstly, the liberalisation and privatisation of the financial sector lead to a considerable increase in credit

(according to the data from Bank of Portugal, total credit went from 49% of GDP, in 1989, to 56% of GDP, in 1993), reverting the negative trend of credit-to-GDP of the previous years. The access to credit tends to benefit more the better off (Clarke *et al.*, 2006), thus contributing to income inequality, as explained in the Introduction. The privatisation of banks led also to changes in the sector: a widening of the wage distribution and an increase in profits concentrated in rich households.

Secondly, since the beginning of the nineties, the tradable goods sector was negatively affected by the disinflationary policy based on an exchange rate peg, which culminated in the adhesion to the European Monetary System in 1992. Because of that policy there was a strong real appreciation of the currency, with negative impact on production, employment and wages of the tradable goods sector (see also Mamede, 2020; Caldas et al, 2020).

From 1995 onwards, data available from Eurostat show that household income inequality was roughly constant until 2001 (oscillating between 37 and 36),[xv] while from 2001 to 2005 the Gini coefficient increased by 1.1 (Figure 4); however, this increase should be read with caution due to the break in the series in 2004 as a result of a different survey methodology.[xvi] But the use of a different survey does not seem enough to explain the increase in inequality (Rodrigues, Figueiras & Junqueira, 2012). From 2005 to 2010, income inequality decreased sharply (4.4), even though the behaviour of economic growth and unemployment was less favourable than in 1995-2001.[xvii]

In contrast with the downward trend in previous years, in 2011 and 2014, the Gini coefficient increased almost one point due to the detrimental effect of the sovereign debt crisis, as the unemployment rate reached a record of 16.2%, in 2013, wages fell, and social transfers were cut. The rise in inequality was not larger due to the increase in direct taxes (which reduce inequality due to their progressivity), as well as to the reduction in wage asymmetry (Rodrigues, Figueiras & Junqueira, 2016). From 2015 to 2017, there is a downward trend (drop of 1 in the Gini coefficient) explained by the improved economic outlook. Despite some oscillations, income inequality had a downward trend between 1995 and 2008 (-1.6), and this trend was even clearer for the longer period between 1995 and 2017 (-3.5).

Figure 4 – Gini-Coefficient of Equivalised Disposable Income

Rodrigues and Andrade (2013) is the only source that shows comparable data covering the period from 1989 to 2009. Unlike Eurostat, which uses the SILC survey (from 2004), these authors base their work on the Household Budget Survey (HBS) done by INE (Instituto Nacional de Estatística / Statistics Portugal). This survey has a larger sample and a slightly different definition of disposable income from that of the SILC survey. According to Rodrigues and Andrade (2013), the Gini coefficient of monetary income (the same used by Eurostat) grew from 32.9 in 1989 to approximately 36.4 in 2009, indicating a clear increase in personal inequality over the whole period. Between 1995 and 2009, the period for which we also have data from Eurostat, the two sources give different indications: while Eurostat shows a decline in inequality, Rodrigues and Andrade (2013) show a slight increase. Looking at the period 1995-2009 in more detail, while the latter source confirms the increase in inequality reported by the Eurostat between 2001 and 2005, it contradicts Eurostat data by indicating that 1995-2001 was also a period of increasing inequality.

Table 1 – Inequality indicators from Rodrigues and Andrade (2013)

When Rodrigues and Andrade (2013) use the Gini of total income,[xviii] they conclude that between 1994 and 2009 inequality decreased 1.4. The indicator remained more or less constant between 1994 and 1999, and decreased thereafter.

Comparing the Gini coefficient with other European countries, Portugal had the highest Gini coefficient in EU15 in 1995 (37 vs 31 for the EU15 average, respectively). More than twenty years later, in 2017, inequality had declined in Portugal (Gini coefficient of 33.5), but relatively speaking, the situation is the same with Portugal ranking as the third most unequal country in EA18 (after Latvia and Spain). The higher levels of personal income inequality in Portugal are partially explained by the low levels of education of the population and the high wage premium for holders of higher education diplomas (Carmo & Cantante, 2015), along with the low efficacy and efficiency of redistributive policies implemented through the tax system and social transfers (Bronchi & Gomes-Santos, 2002; Rodrigues et al., 2012). Nevertheless, Portugal registered a similar decline in inequality to that observed in Europe between 1995 and 2008 (Table 2). It is during and after

the crisis (2008-2017) that inequality in Portugal declined more than in the EA18 (-2.3 and -0.1, respectively).

In general, it is difficult to disentangle the effect of financialisation on inequality from the effect of development and modernisation of Portugal. It can be argued that the decrease in inequality during the period of more intense financialisation (1995 to 2008) is explained by the increase in government social expenditure (Table 4). The main income redistribution policies in effect in that period include the income support allowance ('Rendimento Social de Inserção') and the senior citizens pension supplement ('Complemento Solidário para Idosos' - introduced in 2005) (Carmo & Cantante, 2015).[xix] But even when we look at the Gini coefficient before social transfers (pensions included in social transfers), there is a slight decrease in the indicator (-0.6) between 2004 and 2008 vis-a-vis a small increase in the EA18 (+0.4) (Table 2).[xx] The decline is much greater after social transfers (-2), showing the relevance of social transfers in reducing income inequality. These transfers were especially important during the crisis of 2008-2013, increasing from 5.9% of GDP in 2008 to 8.1% in 2013. Over these years, and using the Gini coefficient before social transfers, Portugal experienced a greater increase in inequality than the EU18 (+5.7 and +2.3, respectively); however, the Gini coefficient after social transfers shows inequality declined more than in EU18, as seen above.

Nevertheless, analysing the Gini coefficient before taxes and social transfers from the OECD,[xxi] we observe an increase in inequality in Portugal between 2004 and 2008, whereas there was a small decline in the EA12 (Table 3).[xxii] The evolution of this indicator between 2008 and 2013 is similar to the Eurostat Gini coefficient before social transfers (pensions included in social transfers). Overall, the data for Portugal show that the tax system was paramount in decreasing disposable income inequality.

It is relevant to consider whether we should use the Gini coefficient after or before taxes and social transfers to assess the impact of financialisation. On the one hand we must consider that state intervention by reducing inequality can mask the effect of market mechanisms.[xxiii] On the other hand, financialisation implies a reduction in the state's role, as financial interests look for profit in the areas under control of the state and pressure for more liberal economic policies - all factors with negative implications for inequality. Therefore, the most sensible answer to the initial question is that we should look at the Gini coefficient both before and after social transfers and taxes, as we have done.

Wage inequality is relevant to analyse the distribution of income before state intervention with taxes and social policies. Looking at total monthly gain ('ganho mensal') from *Quadros de Pessoal* (database of private earners) there is an increase in wage inequality between 1995 and 2008, notably in the period 2000 to 2005 (Rodrigues et al., 2012). This evolution is similar to that of the Gini coefficient after social transfers, except that the increase in wage inequality between 2000 and 2005 is more persistent.

Table 2 –Gini coefficient after and before social transfers

Table 3 –Gini coefficient before taxes and social transfers from OCDE

It is difficult to measure the multiple dimensions of inequality using a single indicator as the Gini coefficient, and as it is well known this coefficient is more sensitive to the distribution of income in the middle of the distribution. As an alternative indicator, we use the ratio between the proportion of income of the tenth and first (the lowest) deciles (Indicator S90/S10), which is an important indicator to characterise the extremes of the distribution. Using that indicator, we conclude that the inequality between the richest and the poorest decreased from 14 in 1995 to 10 in 2017, but it increased from 2001 to 2004 (Figure A. 1). Thus, the S90/S10 indicator confirms the overall picture drawn by the Gini coefficient.

To assess the evolution of the middle-income group, we now show the ratio between the deciles at the extremes and the middle decile, S90/S50 and S50/S10.[xxiv] The population in the middle of the income distribution suffers a small loss of position vis-à-vis the richest group between 1995 and 2008 (S90/S50 increases 0.3), whereas the poorest group improved their position in relation to the middle income population (S50/S10 declines 1.36) (Figure A. 2). Likewise, Rodrigues et al. (2012) show that the reduction in inequality from 1993 to 2009 was due to the improvement in the situation of the population in the lowest decile of the distribution, obtained through social policies directed to them, such as the income support allowance ('Rendimento Social de Inserção') and the increase in both minimum pensions and child benefits. From 2008, there is an improvement in the position of the middle class vis-à-vis the richest and the poorest groups of the population.

Analysing the very rich group of the population (top 0.1%) – the most benefited by financialisation, we observe a decline in the share of their income between 1977 and 1982, but this is followed by a sharp increase from 1989 to 2005 (Figure A. 3). There are no data available for more recent years, and so we resort to the income held by the richest 1%, which despite some oscillations, had a slight increase from 6.1% in 2005 to 6.6% in 2009.[xxv] In conclusion, especially from 1989 to 2005, there are indications of a changing economic system, increasingly financialised, favouring the richest of the rich. For a complete picture, let us now look at the other extreme of the distribution by analysing the poverty rate.

When analysing income inequality, the focus is on relative differences between households, without concern for poverty, that is, for the incapacity of some households for having a minimum income that ensures an ordinary living pattern (Cantillon, 2011). As in the case of personal income distribution, mainstream economics uses the same arguments to defend that the growth in the financial sector reduces poverty, which can occur through either a direct channel (access to more financial resources) or indirect channel (higher economic growth) (Bayar, 2017).

The negative relationship between finance and poverty (that is, the growth of the financial sector reduces poverty) is confirmed by several econometric studies for a variety of countries (Portugal not included) and time periods (Beck, Demirgüç-Kunt & Levine, 2007; Bayar, 2017).

Portugal is an interesting case because it has one of the highest levels of poverty in the EU, despite the downward trend in recent years. In what follows, we complement our previous analysis of inequality indicators with the at-risk-of-poverty rate after social transfers (referred to as 'poverty rate').[xxvi]

In 1995, Portugal had the highest poverty rate in the EU15 (23% vs 17% for EU15 average).[xxvii] Between 1995 and 2008, Portugal's great effort to reduce poverty is reflected in a 4.5 p.p. decline in poverty compared with 1.0 p.p. decline in the EU15/EA18 (Figure 5). This occurred in a context of low unemployment, notably between 1995 and 2001, and enhanced social policies directed to the poorest of the population (see Section 3); but concurrently some factors challenged the European Social Model in the early 2000s, notably globalisation and ageing population (Marques, Salavisa & Lagoa, 2015). In the crisis period, the poverty rate initially remained unchanged (2010-12), before increasing considerably (1.6 p.p.) in 2013 and 2014, and finally decreasing again after the economic recovery (2016 and 2017). Notice that the increase in poverty between 2009 and

2014 was not larger because the median income used to define the threshold of poverty also declined during the crisis. However, the increase in poverty is much greater (6.3 p.p) if a fixed poverty line is used. (Rodrigues Figueiras & Junqueira, 2016).

Despite the improvement, in 2016 Portugal was still one of the EA18 countries with the highest percentage of at-risk-of-poverty population (19.0%), only exceeded by Greece, Spain, Italy, Latvia, and Estonia. These data suggest that the economies of Southern countries generate more poverty than those of the rest of the EA18 (Hall & Soskice, 2001). In particular, the low levels of education of the Portuguese labour force, the over-specialization in low value-added industries (some segments of manufacturing, construction, real estate, and, more recently, tourism), and the peripheral position in relation to the main European markets, are constraints that made the Portuguese economy more vulnerable during and after the crisis (Barradas et al., 2018; Mamede, 2020; Reis, 2020). These limitations explain lower wages and higher labour precariousness, sustaining the phenomenon of the working-poor, which do not have access to many social benefits and contribute to the high levels of inequality and poverty.

Figure 5 – At-risk-of-poverty rate

It is worth noting that even before social transfers (pensions not included in social transfers), the poverty rate in Portugal registered a decline from 27.0% in 1995 to 24.9% in 2008, which, as expected, is smaller than after social transfers.

In conclusion, in 1995, Portugal was one of the most unequal countries of the EU15 and had one of the highest poverty rates, but the situation has since improved. The high levels of inequality and poverty in Portugal are a structural characteristic that was already present before the growth in finance in the past decades. As such, it is hard to sustain that financialisation is responsible for the high levels of inequality and poverty. Nevertheless, there is evidence that financialisation produced an increase in personal income inequality in part of the period, and, as will be developed below, it may have also impeded processes of addressing the causes of inequality.

4. Other effects of financialisation and other factors explaining personal income inequality and poverty

Financialisation may also affect income inequality by pressing for the decline in trade union power, as clarified in Section 2. In Portugal, the union membership rate had a downward trend from 1978 onwards (Figure 6), and specifically in the period 1995 to 2008 (it decreased 5.9 p.p.) The reduction in union power cannot be attributed just to financialisation, not least of all because the biggest decrease in this indicator did not occur in the period of highest growth in finance-dominated capitalism but occurred instead in the period of deindustrialization of the economy. Other factors, indirectly related to financialisation, contributed to the fall in union membership rates, such as: the mentioned deindustrialisation of the economy, the reduction in the number of civil servants (notably between 2005 and 2012), privatisations, increase in the international mobility of firms, and the increase in the precariousness of labour relations, partially as a result of the liberalisation of the labour market (see Caldas et al., 2020; Campos Lima, 2020).[xxviii]

Figure 6 – Union membership rate (%)

The increase in competition from abroad, as measured by the higher openness of the Portuguese economy - up 14.57 p.p. from 1995 to 2008 (Table 4), may have also contributed to the growth in income inequality. Given its trade specialisation, the Portuguese economy was especially hit by growing competition in trade and in attracting FDI from the emerging Asian economies and Eastern and Central European countries. The Portuguese productive system is over-specialised in sectors with low value added per worker that face both a strong international competition (from China and other economies) and a world demand with weak dynamism (Mamede, 2020; Reis, 2020; Rodrigues et al., 2020). This problem is aggravated by the predominance of small- and medium-sized corporations, which comparatively to EA countries, occupy mostly low-skilled segments of the global value chains, and which represents a constrain on innovation, productivity, higher wages, and lower levels of inequality and poverty.

On the other hand, in addition to better redistributive policies described above, the improvement in educational levels, with the population holding secondary schooling degrees growing from 51.5% in 1995 to 63.2% in 2008 (Table 4) may also explain the overall decrease in personal income inequality registered between 1995 and 2008. A labour force with higher skills tends to have better employment prospects and wages (Lin & Tomaskovic-Devey, 2013).

Table 4 – Inequality and poverty indicators and their determinants

5. Discussion and conclusions

We started this work by acknowledging that a period of financialisation in Portugal between 1995 and 2008 was preceded by the privatisation and liberalisation of the financial system and was contemporaneous with the accession to the euro area. The goal of this chapter was to investigate whether, in that period, there was an increase in income inequality that can be attributed to financialisation, considering that the former is determined by a complex set of processes and structures.

Firstly, we observe that the development of financialisation between 1995 and 2008 was accompanied by a decline in wage share only from 2003 onwards, and by a growth of rentier income share between 2002 and 2008 basically due to an increase in dividends.

Personal disposable income inequality increased sharply in 1989-94, before the strong growth in finance in 1995-2008. From 1995, there was an overall decline in income inequality, with a temporary increase only in 2001-05. The downward trend in the poverty rate between 1995 and 2008 is even more impressive. In contrast, during the economic crisis of 2013-14, poverty and inequality rose considerably - this can be seen as an indirect consequence of financialisation as the crisis was in part explained by this phenomenon.

Despite improvement in disposable income inequality and poverty rates, in 2016 Portugal was still one of the most unequal countries in the EU15 and had one of the highest poverty rates. Between 1995 and 2008, the reduction in inequality was achieved by improving the position of

the poorest households, rather than by greater proximity of the position of the middle class to that of the richest. There was also a clear increase in the share of income held by top incomes (0.1%) from 1989 to 2005. Another indicator pointing to a deterioration of income distribution is the increase in the Gini coefficient of income before taxes and social transfers over the period of 2004 to 2008.

In short, we do not find a generalised increase in both personal income inequality (after taxes and social transfers) and functional inequality in the period in which finance grew the most (1995-2008). However, three remarks need to be made. Firstly, financialisation may have had some negative effects on inequality because there was a rise in the Gini coefficient of disposable income between 2001-05, an increase in the Gini coefficient of income before taxes and social transfers between 2004 and 2008, a rise in private wage inequality between 2000 and 2005, an increase in the rentier income share between 2002-2008, a substantial increase in the share of income held by top incomes from 1995 to 2005, and the middle class did not improve its position towards the high class.

Secondly, the impact of financialisation cannot be perceived by looking only at the contemporaneous and immediate modification on inequality and poverty indicators. The economic crisis in Portugal, that followed the growth in finance and is partially explained by it, led to a substantial increase in both functional and personal income inequality. And the effect of the economic crunch may even be more long-lasting, as the observed increase in public debt may limit economic growth (due to higher interest rates and less public investment) and reduce the fiscal space for more spending in the welfare state. Moreover, the crisis implied a large increase in unemployment, which due to the hysteresis effects will have long-term impact on unemployment, especially of the more vulnerable groups. The upgrade of the Portuguese growth model for one grounded on higher wages may also have been dampened by low investment, especially on R&D, during the crisis.

Another long-term effect of the crisis is the set of changes in pension rules during 2010-14, such as the modification of the sustainability factor, the temporary suspension of early retirement, and the temporary non-updating of pensions.[xxix] Through different mechanisms, these changes imply a reduction in future pensions, leading to worse living conditions of pensioners, which usually do not have enough savings to complement their pensions with private pensions funds.

A third explanation for why we do not find a strong effect of financialisation on inequality rests on the fact that other factors hindered its increase in the period, notably the growing importance of social policies resulting from the late consolidation of the welfare state. The ability of the financial interests to reduce social policies was limited by the population's demand for a degree of protection close to European standards. Thus, public policies using a variety of instruments directed to the poorest of the population avoided the deterioration of their income during the period of stronger financialisation.

A limitation of our analysis is that we focus on income inequality and poverty, yet inequality has other dimensions, such as inequality of wealth, opportunity, education, skills, health, life expectancy, welfare, and happiness (Heshmati, 2004). In particular, we do not refer to inequality in wealth, a subject with little research in Portugal (Rodrigues et al., 2012), partially due to the lack of data. Nevertheless, financialisation increases wealth inequality, because mortgage credit to buy houses is more accessible to the richer households and are also them who take more advantage of the rise in the prices of financial assets. Moreover, it accentuated the privatisation and commodification of housing, resulting in the decrease of an already small stock of social housing (Santos et al., 2018).

The evolution of housing calls our attention because the indicators of inequality and poverty do not account for the cost of living. Individuals having the same income, may have different living standards. For instance, tenants must support higher housing costs than homeowners. Moreover, the increase in the cost of consumption goods hits more individuals at the bottom of the income distribution, because they spend a larger proportion of their income in consumption. Likewise, the provision of public goods, such as health, social housing, and education, is not taken into account by the indicators of poverty and inequality, as it only affects the disposable income purchasing power. When the degradation of public services, such as health and social housing, is taken into consideration, it is observed that it affects disproportionally more vulnerable groups such as women, single parent households and ethnic minorities (Santos and Príncipe, 2020).

Regarding inequality of opportunities, a usual indicator is the risk of poverty among young people, as their material conditions of living are less explained by choices and more by the opportunities available to them. At the end of the financialisation period, between 2007 and 2009, we observe an increase in poverty or social exclusion among children less than 18 years old in Portugal, from 26.9% to 28.7% - an increase above the average of EU18.[xxx] The increase was even more

dramatic during the crisis, between 2009 and 2013, reaching a high of 31.7%. This is evidence that the financialisation process deepened the inequality of opportunities, especially by contributing decisively to a dynamic of crisis.

The reason why we do not observe an overall strong effect of financialisation on inequality may be linked to the specificities of the Portuguese economy, notably the small importance of financial markets, which determines a weaker shareholder orientation of corporate governance. Instead, the main impact of financialisation on personal income inequality has been through bank credit, not only due to its role in creating the sovereign debt crisis, but also due to different capacities of households in benefiting from credit to buy houses in the boom phase and to manage credit burden in the crisis period.

In conclusion, the Portuguese experience shows that the financialisation process has some direct and indirect effects on income inequality. As these effects are dependent on the country's socio-economic and institutional characteristics, it calls for studies that consider these elements. One of the greatest impacts of financialisation in Portugal is that it created the conditions for the financial crisis, which ultimately hit the poorest households more severely. Hence, public policies are required that appropriately regulate the financial sector to mitigate its negative impacts on income inequality, public services, labour market institutions, and non-financial firms' behaviour.

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7. Appendix

i This chapter develops and elaborates the preliminary results published in Mamede, Lagoa, Leão & Barradas (2016). We thank the comments by the Editors of the book (Ana C. Santos and Nuno Teles) and by Ben Fine that contributed to improve the chapter.

[ii] Source: INE, PORDATA.

iii This is the case of the majority countries of OECD and EU (Onaran & Obst, 2016). The wage-led model, in opposition to the profit-led model, occurs in countries where the beneficial effects of higher wages on private consumption more than compensates its prejudicial effects on investment and net exports, implying that an increase in wages rises aggregate demand.

iv It is worth noting that this author states that the three channels are not linked exclusively with financialisation but are also connected with neoliberalism. In fact, the literature on financialisation recognises that these two phenomena – financialisation and neoliberalism – emerge simultaneously and they are interrelated and dependent on each other (Van der Zwan, 2014; among others).

v AMECO defines the adjusted wage share as [(Compensation of employees / (GDP)]/ [(Total full-time equivalent employment) / (Full-time equivalent employees)]. The adjustment factor corrects for part-time workers and for self-employment.

[vi] We do not analyse the role of sectorial composition on the overall wage share, but it may be an important factor. See Mamede (2020).

[vii] Although the concept of wage-led model applies to the overall economy, the evolution of wages affects more the sectors that use more intensively low-wage labour.

[viii] The net national income includes property income and wages received (less paid) by the domestic economy vis-à-vis the rest of the world. This is particularly relevant for a small open economy like the Portuguese one.

ix In a different approach, Power, Epstein and Abrena (2003) define the rentier income as the profit of financial firms plus the interest income of the rest of the private economy. We opt not to use this definition of rentier income because they exclude dividend payments, an important component of the financialisation of corporations.

x The break in 1995 results from a different data source.

[xi] Due to the heavy dependence on international financing from 1995, a large fraction of the interest paid by households, corporations and the government went to external entities.

xii This is in line with the upward trend of dividends paid by NFC as a percentage of GOS between 1995 and 2008 referred to in the Introduction.

[xiii] One factor contributing to that difference is the property of dwellings: whereas in Portugal dwellings are mostly owner-occupied, in Germany they are mostly rented by households. When the house is owner-occupied the imputed rental generates an operating surplus to the household that is not considered rentier income. But when the house is rented from a corporation, the operating surplus generated when distributed as dividends enters in the rentier income. In summary, in Germany rentier income may me higher than in Portugal due to rentals pay by households to corporations. Rents paid to other households do not contribute to that effect because they also produce operating surplus for other households.

xiv Using disposable income by equivalised adult and based on the INE Household Budget Survey.

xv Eurostat data exclude non-monetary income. Disposable income includes market income (received from work and from investment and property) and social transfers in cash including old-age pensions. Disposable income is obtained by deducting direct taxes from gross income.

xvi The data on income distribution from Eurostat has a break in 2005 due to the use of a different survey. Between 1994 and 2001, inequality indicators were computed using the European Community Household Panel (ECHP) or the national databases (especially the Household Budget Surveys), and the European Statistics on Income and Living Conditions (EU-SILC) are used from 2001.

xvii In Section 2 we describe some factors contributing to the stabilization of income inequality in 1995-2001.

xviii Total income includes monetary income plus consumption of own production, wages in kinds, imputed rents of house owners, etc.

[xix] The 'Rendimento Social de Inserção' and the 'Complemento Solidário para Idosos' are two non-contributory benefits in cash paid by the Social Security System for poverty relief. The first is attributed to individuals that live in a poverty

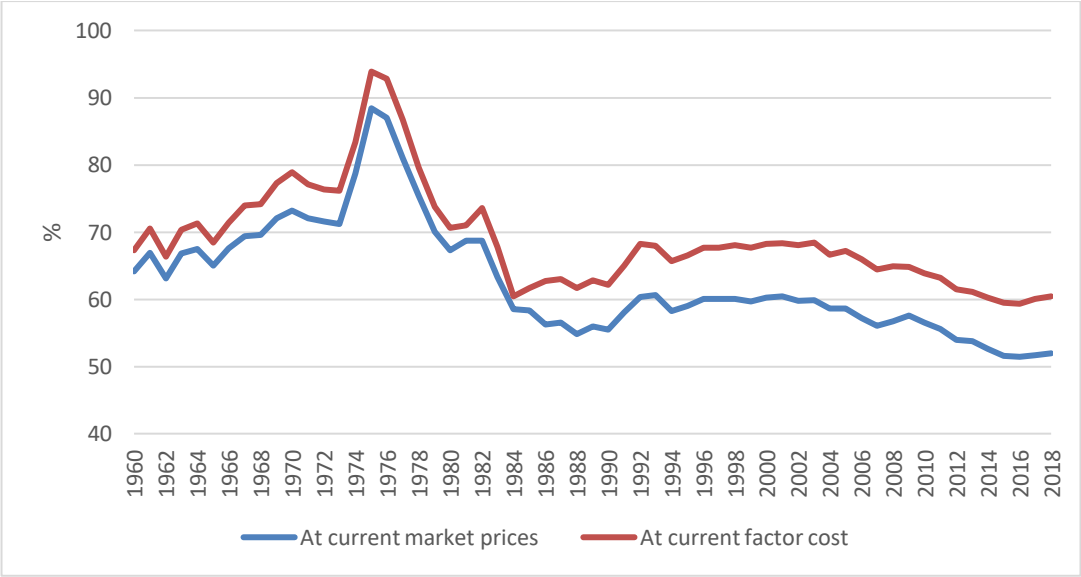
situation and aims to help them to satisfy their basic needs. The second one is attributed to older people (more than 66 years and 5 months in 2019) that live with scarce resources (below 5.175,82€ per year in 2019).
xx Eurostat has only released data for this indicator since 2004.

xxi Eurostat does not publish this indicator.
xxii OECD has only published this indicator since 2004.
[xxiii] Nevertheless, the better off tend also to benefit more from state intervention, such as in the provision of higher education and fiscal incentives for particular applications of household savings, such as pensions.
xxiv S50 is the share of income held by the fifth decile.
[xxv] Data from Eurostat using equivalised income.
xxvi The poverty rate is the proportion of persons with an equivalised disposable income below 60 per cent of the national median equivalised disposable income after social transfers.

[xxvii] All EU and EA averages refer to weighted averages.
[xxviii] For a sectoral disaggregation of these effects see Mamede (2020).
[xxix] Besides these more long-lasting measures, there were also temporary cuts in pensions.
[xxx] This indicator from Eurostat is available only from 2007.

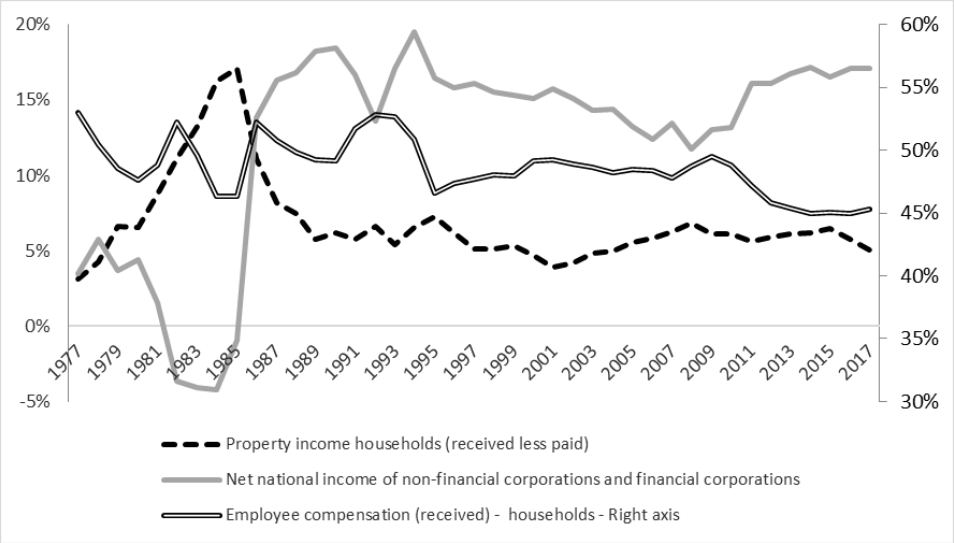
Figures and Tables

Figure 1 – Adjusted wage share as percentage of GDP



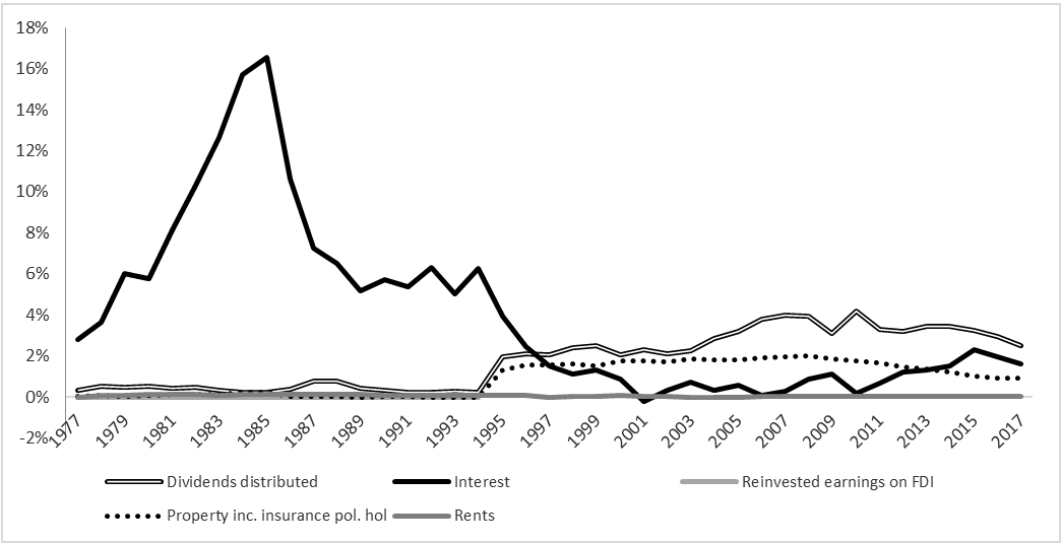
Note: adjusted for full time equivalent employees. 2018 is a projection. Source: AMECO.

Figure Erro! Apenas o documento principal. **– Property income and its counterparts (in proportion of gross national income)**



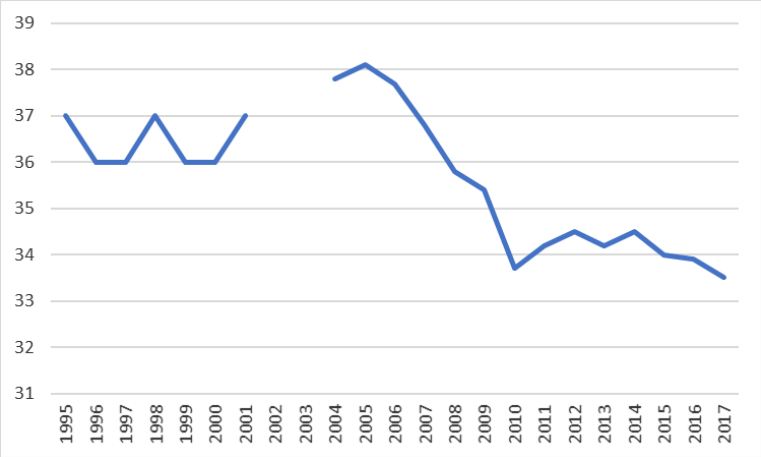
Source: INE National Accounts (up to 1994) and Eurostat (from 1995).

Figure 3 – Breakdown of primary income (as percentage of gross national income)



Source: INE Contas Nacionais (up to 1994) and Eurostat (from 1995)

Figure 4 Erro! Apenas o documento principal. **– Gini-Coefficient of Equivalised Disposable Income**



Source: Eurostat. Note: break in the time series in 2004.

Table 1 – Inequality indicators from Rodrigues and Andrade (2013)

	1989	1994	1999	2005	2009
Gini index (total income)	31.5	34.6	34.7	34.2	33.2
Gini index (monetary income)	32.9	35.9	36.7	37.3	36.4
S90/S10 (monetary income)	8.8	10.5	10.8	11.0	10.1

Source: Rodrigues and Andrade (2013) based on Household Budget Surveys from INE.

Table 2 –Gini coefficient after and before social transfers

	1995	2001 (2)	2004	2008	2013	2017
Gini coefficient after social transfers						
EU15/ EA18 (1)	31	29	30.7	30.5	30.7	30.4
Portugal	37	37	37.8	35.8	34.2	33.5
Gini coefficient before social transfers (pensions included in social transfers)						
EA18	-	-	48.6	49.0	51.3	50.8
Portugal	-	-	50.8	50.2	55.9	58.2
Gini coefficient of gross private wages						
Portugal	33.9	33.8	34.9	34.7	-	-

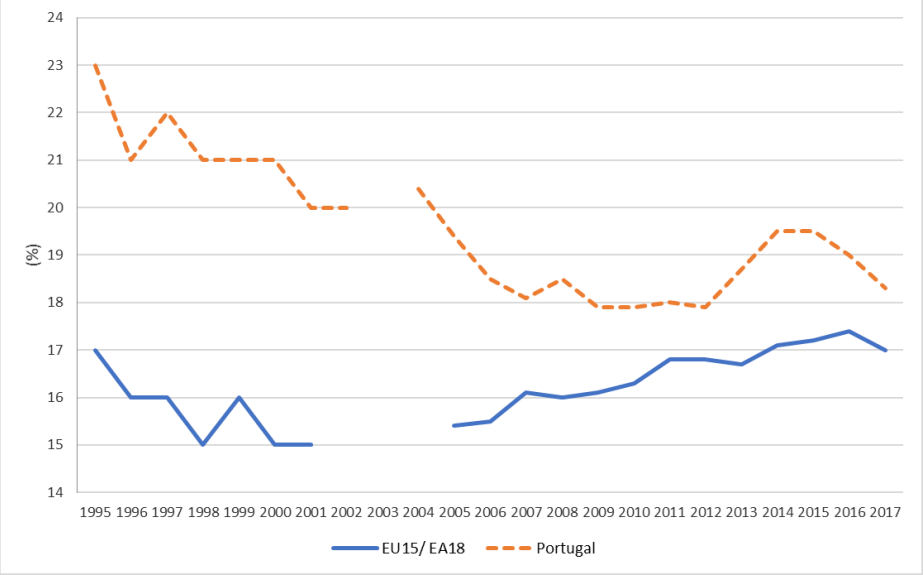
Note: (1) EU15 in 1995 and 2001, and EA18 from 2004. (2) The data of the Gini coefficient of wages are for 2000. Source: Eurostat and Rodrigues *et al.* (2012) for the Gini coefficient of wages.

Table 3 –Gini coefficient before taxes and social transfers from OCDE

	2004	2008	2013	2015
Portugal				
New income definition since 2012			55.2	53.6
Income definition until 2011	50.6	52.7	56.3	
EA12* (simple average)				
New income definition since 2012			50.9	49.6
Income definition until 2011	48.8	48.1	51.2	

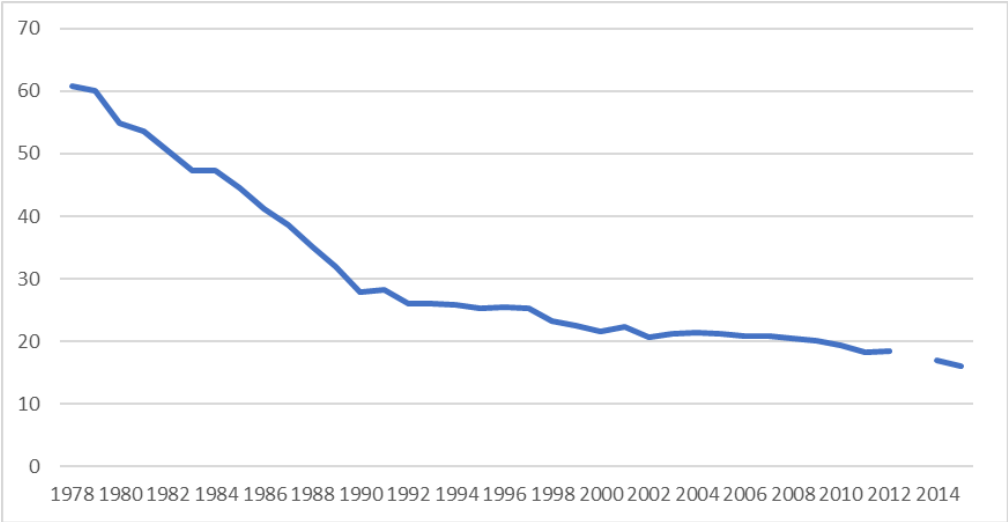
Notes: (1) due to the lack of data, we considered the following fixed composition of 12 countries: Belgium, Estonia, Finland, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Portugal, Slovak Republic, and Slovenia. Using the income definition until 2011, there were no data in 2013 for Germany or Finland, and for the new income definition there were no data available for Luxembourg. Source: OECD. These data are also based on the EU Survey of Income and Living Conditions (EU SILC).

Figure Erro! Apenas o documento principal. **– At-risk-of-poverty rate**



Note: EU15 until 2001 and EA18 thereafter. Source: Eurostat

Figure 6 – Union membership rate (%)



Source: 1979-2012: ICTWSS; 2014-15: Labour Force Statistics, OECD

Table 4 – Inequality and poverty indicators and their determinants

	1995	2001	2004	2008	2013	2017
Gini index (%) [1]	37	37	37.8	35.8	34.2	33.5
Poverty rate (%) [1]	23	20	20.4	18.5	18.7	18.3
Unemployment rate (%) [2]	7.1	4	6.6.	7.6	16.2	8.9
Government expenditure in social security (% GDP) [3]	3.5	3.6	4.9	5.9	8.1	7.0
Degree of openness of the economy (% GDP) [2]	62.63	68.56	66.80	77.20	81.90	82.09 (2016)
Secondary school enrolment (%) [2]	51.5	62.5	58.0	63.2	73.6	77.6
Trade union density (%) [4]	25.4	22.4	24.4	20.5	17.0 (2014)	-
		1995-2001	**2002-2004**	**2005-2008**	**2009-2013**	**2014-2017**
GDP growth (average of annual growth rate, %) [2]	-	3.52	0.56	1.25	-1.61	1.66

Source: (1) Eurostat (2) INE, Pordata. (3) INE, Banco de Portugal, Ministry of Finance, Pordata. (4) - ICTWSS and OECD (in 2014)

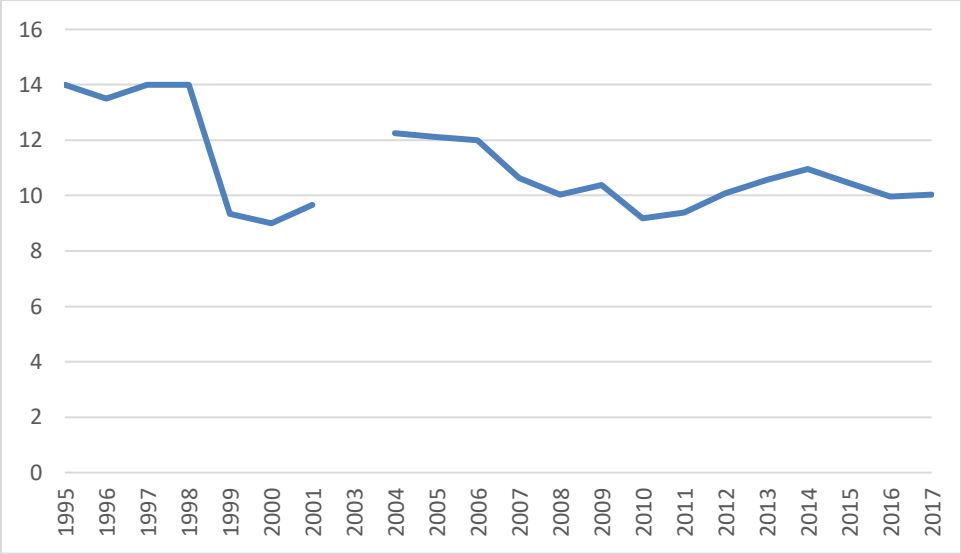
Appendix

Table A. 1 – Trends in inequality indicators

Gini coefficient					
	1980-90	1989-94	1995-2008	2008-2017	
Longer Trends (1980-2017)	↓ (GT, 1995)	↑ (RA, 2013)	↓ (Eurostat)	↓ (Eurostat)	
			1995-2009 ↑ (RA, 2013)		
Shorter trends (1995-2017)					
	1995-2001	2001-05	2005-10	2010-14	2014-17
Eurostat	→	↑	↓	↑	↓
	1994-2001	2001-05	2005-09		
RA, 2013	↑	↑	↓		
S90/S10					
	1980-90	1989-94	1995-2008	2008-2017	
Longer Trends (1980-2017)	↓ (GT, 1995)	↑ (RA, 2013)	↓ (Eurostat)	→ (Eurostat)	
Shorter trends (1995-2017)					
	1995-2001	2001-04	2004-10	2010-14	2014-17
Eurostat	↓	↑	↓	↑	↓
	1994-99	1999-2005	2005-09		
RA, 2013	↑	↑	↓		

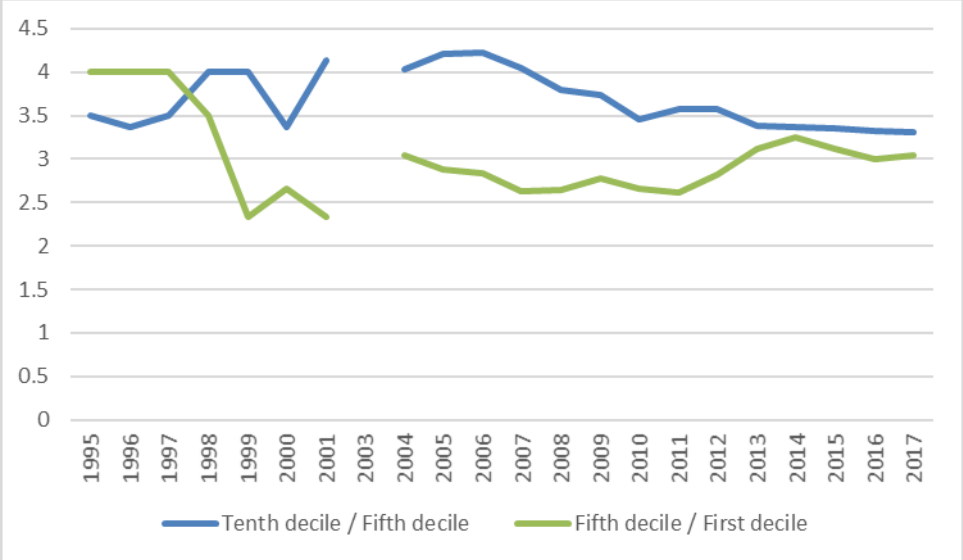
Note: RA, 2013 – Rodrigues e Andrade (2013), GT, 1995 – Gouveia and Tavares (1995)

Figure A. 1 - Indicator S90/S10 (1995-2012)



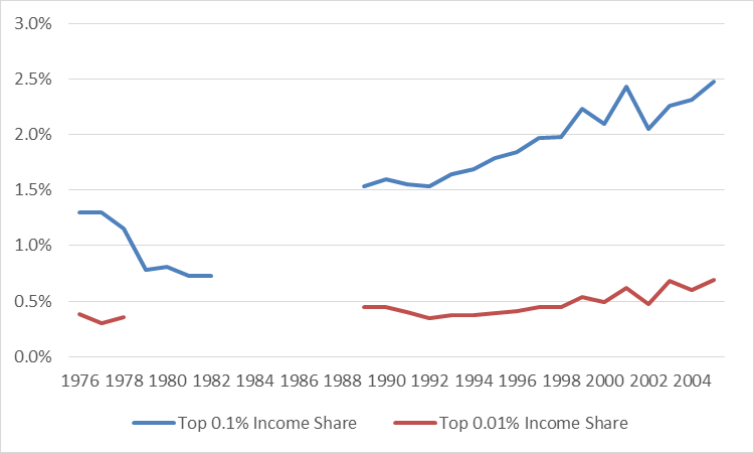
Source: Eurostat. Note: break in the time series in 2004.

Figure A.2 –Indicators S50/S10 and S90/S50 (1995-2017)



Source: computed with data from Eurostat

Figure A.3 – Income of the very rich population (in proportion to total income)



Source: The World Top Incomes Databases