PROGRAMME FOR RESEARCH AND ACTIONS ON THE DEVELOPMENT OF THE LABOUR MARKET

TRENDS AND DISTRIBUTION OF INCOMES
AN OVERVIEW

EFER (EUROPEAN FEDERATION FOR ECONOMIC RESEARCH)

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October 1987

THE HOUSEHOLD DISTRIBUTION OF INCOME IN EUROPE

by

Guglielmo Wolleb

1.   INTRODUCTION

This research studies the trends in, and causes of, inequality in the household distribution of income in a number of European countries.

This research follows two previous studies by the European Federation for Economic Research devoted to changes in the "rapport salarial" in Europe and to Europe's place in the world economy.[1] This present study focuses on Europe and emphasises the similarities in its economic and social structures, which make Europe a meaningful entity. It nevertheless identifies the important national differences which still exist between the various countries. Like the earlier reports, it centres on the systems of social and economic regulation, and within that the role of the family.

The report is the collective work of a working group in which national papers were extensively discussed at various stages of drafting.

The report consists of five national papers and an introduction which explains the basic theoretical concepts and summarises the main results in a framework of comparative analysis.

The national papers follow a similar plan so as to enable common features and national characteristics of the household distribution of income and in its determining variables to be identified at European level. The opening chapter is devoted to an assessment of the degree and structure of inequality, and its evolution throughout the seventies and early eighties. The following chapter deals with the roles played by the welfare system, market forces and the family itself in producing changes in inequalities of distribution. A description is given of demographic and labour market trends and of their impact on the size and

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[1].   See R. Boyer, "La flexibilite du travail en Europe", Editions La Decouverte, Paris, 1986 and F. Cripps and T. Ward, "Europe in the World Economy", mimeo, 1987, to appear in the Oxford University Press.

composition of households. This is followed by an analysis of the various sources of inequality and of their relative importance. Inequalities arising from the structure of the family, relations with the labour market, social class, and geographical position are considered in turn. Finally, an attempt is made to identify those groups in the population or those types of household where these factors of inequality are likely to accumulate, causing situations of relative or absolute deprivation.

In view of the wide statistical differences in household income, limiting both the comparison of different countries' experiences and the temporal comparison within each country, national reports include a statistical appendix where the definitions of the main concepts used in the paper are given and where the limits of available statistics are specified. However, the definitions of family and of income used in the various countries' reports are roughly similar. The definition of family coincides with the concept of household, which comprises persons living alone or groups of people living at the same address. As far as possible, the definition of income used is that of disposable income, including labour and capital income and social transfers after deducting social contributions and taxes. France is the only major exception, because its data source refers to taxable household revenues, which differ considerably from the above definition of disposable income.

This introduction follows the same format as the national reports and is based on their contents.

2. METHODOLOGY

The choice of the household as a unit of analysis in the income distribution process draws upon a wide and inter-disciplinary area of research. Such work concentrates on the role of the family within the economy, highlighting its links with the production system, and its position at the centre of the system of social reproduction.

The family has been found to play a relevant role in determining labour supply, both quantitatively and qualitatively, by taking decisions autonomously on participation rates and on its members' share of market and non-market activities. The quantity of labour supplied may vary in accordance with the specific needs of the family throughout its life-cycle, or in response to external economic events, while its composition is mainly dependent on the historically determined division of labour within the family. What is relevant is that, in regulating the labour supply, the family acts as a relatively autonomous decision-making unit capable of evolving strategies conducive to its objectives.

The family, moreover, performs the crucial, legally and culturally established role, of satisfying the needs of its

members by means of solidarity in the use of all individual resources accruing to it. [2] The standard of living of individual members is therefore determined within the family and not on the level of their personal income. The responsibility for the satisfaction of basic individual needs has gradually been taken over by the State, at least for those needs which are recognised as a citizen's right. However this process has transformed, rather than reduced, the role of the family in the sphere of social reproduction for three ' main reasons. Firstly, because the total substitution of the family in some fundamental fields of activity, such as education, health and social security has proven to be impossible, especially in those instances where personal care is required. Secondly, because the growth of welfare provisions and of real consumption in general, has increased in line with the rise in the socially acceptable standard of living, necessitating continuous family intervention to fulfill increasing requirements. Thirdly, because the growth of the service sector, and of the welfare institutions in particular, extended the tasks of the family to cover the management of relations with all kinds of public and private bodies.

The family's function in the productive sphere and in the system of social reproduction are of primary importance to our analysis of income distribution, which focuses on the actual standard of living of families. This standard of living depends on the total amount of available resources, of which income represents an important part,[3] and on the needs of the family which can be roughly estimated by its size and composition.[4] The funding of resources is clearly linked to

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[2]. The emphasis on the family as a decision-making unit and as a solid unit of consumption must not be confused with an implicit judgement on the degree of harmony and justice prevailing within the family. Important decisions can and in fact, are taken, by individual members of the household which conflict with the opinion of other members. The division of resources within the family may well be unfair. Ultimately, the relationship between family members is regulated by a variable and historically determined mix of solidarity and balance of power.

[3]. Needless to say, disposable income is only one of the available resources which determine the households' standard of living. Consideration of the other resources, which are covered extensively in economic and sociological literature, would certainly help in the assessment of living standards but would also make a single piece of research unmanageable.

[4]. This standardized treatment of human needs is extremely poor even though it is the only one of practical use for statistical analysis. Students and policy makers should, however, bear in mind the following remarks by

the family's relation with the labour market which represents the main source of income for the household. The satisfaction of needs highlights the central position of the family because it is the common use of the family's resources which breaks the direct link between individual earnings and the standard of living of family members. Resources and needs are therefore the two poles of our inquiry on income distribution. The comparison between the two offers a criterium on which to assess the equality of a given distribution.

In performing its functions in the productive sphere and in the system of social reproduction, the family does not act in isolation but interacts with the market forces and with the state in ways which are characterized by different mixtures of conflict and complementarity and which, in any case, induce a process of reciprocal adaptation. The family's action is therefore constrained by, and constrains in its turn, the contemporary working of these two socio-economic regulators.

This focus on the interdependence of socio-economic processes can highlight complex relationships. An interesting example is the interrelated dynamics between the evolution of the welfare state, the increase in women's labour supply and changes in the composition of labour demand.

The development of the welfare system has relieved women of some tasks related to social reproduction but on the same time the consensus which has accompanied the welfare system has been eased by the crucial support of family intervention in all those areas in which the welfare services were unable to satisfy the essential needs. These changes in the division of labour between state and family in the

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R. H. Tawney where the author not only recognizes the wide variety of human needs but recommends individual care for their satisfaction: "it is true, again, that human beings have, except as regards certain elementary, though still sadly neglected, matters of health and development different requirements, and that these different requirements can be met satisfactorily only by varying forms of provision. But equality of provision is not identity of provision. It is to be achieved, not by treating different needs in the same way, but by devoting equal care to ensuring that they are met in the different ways most appropriate to them ....." "The more anxiously, indeed, a society endeavours to secure equality of consideration for all its members, the greater will be the differentiation of treatment which, when once their common human needs have been met, it accords to the special needs of different groups and individuals among them .....".
See R. H. Tawney, "The Religion of Inequality", in A. B. Atkinson (ed.), "Wealth, Income & Inequality", Oxford University Press, 1980, extracts from R. H. Tawney, "Equality", Unwin Books, 1965.

reproductive sphere affected the productive sphere as well. The growth of the welfare state favoured the growth of female activity rates both directly by means of employment creation in the welfare institutions and indirectly by means of a modification of women's tasks within the family. Developments in the productive sphere connected to the growth of the private service sector, the characteristics of technological innovation and the uncertainty of the economic perspectives, all resulted in a demand for labour which was flexible and cheap. This led to the growth of female employment and favoured the ongoing process of a change in the women's role within the family.

This dynamic sequence demonstrates how socio-economic processes are never the result of the action of a single force or social actor, but the outcome of complex interrelations between different protagonists and between different spheres of activity. Moreover, differences in the experiences of various countries can be more easily understood by studying not only the specific peculiarities of a single socio-economic regulator, but also the different structure of relations and their different boundaries of action. As far as our analysis is concerned, we have identified the State, the Market, and the Family as the main protagonists in the income distribution process, and have attempted to assess their relative roles in relation to changes of income distribution over the last decade. However, it is beyond the scope of this study to develop a full analysis of each country's wage and welfare systems, and of their role in the socio-economic systems of regulation.

3. POPULATION, LABOUR FORCE AND HOUSEHOLDS

Demographic trends and changes in the composition of the labour force affect household income in a variety of ways.

The age structure of the population, and the average size and age composition of the household, is affected by the birth and death rates. Changes in size and composition, affect household income and its power to satisfy household needs, both by means of changes in the number and type of potential earners, and by means of changes in the total number of people in the family.

Changes in the sex and age structure of the labour force alters the composition of household income, which consists of the contributions from the husband, the married woman and the children. Changes in the process of income formation are, in turn, associated with changes in total household income, as the number of workers in the family varies.

The composition of unemployed people according to age and sex also influences household income. Unemployment is a painful experience for everybody and it also has a negative affect on the level of household income. However, the

onsequences on household income vary depending on which member of the family is unemployed: the husband whose income is generally the main monetary resource of the household, the wife whose income is relevant but less important, and the children whose contribution is not significant for the family's standard of living.

Thus, the current trends in population, labour force and unemployment affect the overall distribution of income, by means of changes in the structure of households by size and composition; (households of different size and composition have different average incomes) and by means of changes in the relationship of each household with the labour market; (the number of workers and the sources of income change). The next section will therefore be devoted to a brief description of these trends over the last decade.

Demographic trends in Europe, throughout the sixties and seventies, have been characterized by a fall in the birth and death rates, generally resulting in a slowing down of population growth, and in an ageing of the population. The intensity and timing of these phenomena, however, varied in different countries.

Germany has been experiencing a period of negative growth since the seventies, while in the U.K. the population growth has been around zero; in Italy too, growth declined continuously throughout the seventies, and gave rise to modest positive rates in the early eighties. In France, after a decrease in the first half of the seventies, population growth stabilised around a positive annual rate of 0.5% over the last ten years. Spain is the only country in which population in the seventies grew at a rate higher than in the sixties; however, since 1981 its population growth has halved.

In all countries these demographic trends have produced a fall in the population aged under 14 and a modest or zero rise in the over 65s. The reduction in the youngest part of the population was particularly high in Germany and reflected a period of prolonged negative growth, while in Spain it was very low, due to the high birth rate in the seventies. In the early eighties the share of the under fourteens was 15% in Germany, around 20% in France, Italy and the U.K. and 25% in Spain. In all countries the share of the over 65s was around 15%, except in Spain, where it was slightly lower. As a result, the population of working age increased in all countries except Spain, where it remained stable.

Demographic trends also contributed to a change in the size and composition of households. All countries have experienced a fall in the share of large families, due to a reduction in the number of children, and a significant increase in the one person households, partly due to the ageing of the population and the different average life expectancy of men and women. Spain is the only exception,

recording a similar household composition in 1971 and in 1981. The average size of households has therefore decreased in all countries but still differs widely, being particularly low in Germany (2.3) and particularly high in Spain (3.7). (See Table 1)

The composition of the labour force and unemployment by sex and age affects the household's relationship with the labour market and hence the household income. (See Table 2)

Differences in the rate of activity between countries do not arise from differences in the male rate of activity, with the major exception of the U.K.. This homogeneity reflects the common role played by the male in European households as the main income earner. However, great differences arise, in female rates of activity, which range from a bottom value of 33% in Spain to a top value of 58% in the U.K.. These disparities in relation to the labour market reveal profound differences between countries in the woman's role in the household and in her contribution to household income.

TABLE 1

AVERAGE SIZE OF HOUSEHOLDS

	1968	1982
FRANCE	3.1	2.7

	1971	1984
UNITED KINGDOM	2.9	2.6

	1972	1985
GERMANY	2.7	2.3

	1971	1981
ITALY	3.3	3.0

	1971	1981
SPAIN	3.8	3.7

A temporal comparison within each country shows that all countries have experienced a fall in the male rate of activity mostly due to a lengthening of the education period of young people, and to the increase in early retirement of older workers. Conversely, the female rate of activity, has increased in the U.K., in France and Italy, while it has remained stable in Germany and Spain. However, the stability of the overall female activity rate in Germany and Spain is the result of a contemporary fall in activity among the younger and older parts of the population of working age and of an increase in participation by the middle age-group.

Despite the widely different starting levels in each country, a common trend, towards an increase in married women's participation, and in their contribution to household income exists in Europe.

Large differences between countries can be observed in the composition of unemployment by sex and age.

TABLE 2

COMPOSITION OF LABOUR FORCE

	RA	MRA	FRA	RU	MU/TU	FU/TU	YU/T
FRANCE							
1973	67.6	86.3	48.7	2.6	37.0	63.0	24.5
1985	65.7	76.5	55.0	10.1	47.3	52.7	38.8
U.K.							
1973	72.9	93.0	53.1	3.3	85.5	14.5	24.9
1985	74.3	88.3	60.1	11.3	69.1	30.9	38.1
GERMANY							
1973	68.8	89.1	49.6	0.8	54.9	45.1	23.3
1985	65.2	79.9	50.4	8.6	55.9	44.1	26.2
ITALY							
1973	58.9	84.9	33.9	6.2	46.3	53.7	60.2
1985	59.7	79.2	40.8	10.5	43.2	56.8	59.6
SPAIN							
1973	61.4	91.5	32.4	2.5	74.0	26.0	50.8
1985	56.1	78.7	33.6	21.4	64.2	35.8	47.7

Source: Historical Statistics, OECD, Paris 1987.
RA: Rate of activity; MRA: Male rate of activity; FRA: female rate of activity; RU: rate of unemployment; MU/TU: male unemployment over local unemployment; FU/TU: female unemployment over total unemployment; YU/TU youth unemployment over total unemployment.

Italy is an extreme case, where unemployment hits mainly women and young people, while the adult male is unlikely to experience a job loss. The U.K. is completely different, there male unemployment is higher than female unemployment and youth unemployment is less important than in most other European countries. This difference implies that in Italy

the fundamental component of household income is seldom put
at risk, and that women and young people suffering from a
lack of income are protected by the safety-net provided by
the family.   In the U.K., on the other hand, unemployment has
a much more devastating effect, cutting the main source of
household income and pushing households with unemployed heads
to the bottom level of income distribution, as is illustrated
in the U.K. report.   The link between unemployment and
poverty in the U.K., and the lack of a clear relationship
between the two in Italy, emerges from the poverty studies
on Europe, and confirms the different impact unemployment has
on household income in the two countries.   Other countries
fall between Italy and U.K.   A more balanced situation is
found in Germany, where the male and female rates of
unemployment are similar, and where youth unemployment is the
lowest of the countries considered.   The position in France
is a moderate version of the Italian situation, with a female
unemployment rate twice as high as the male one, and a
significant proportion of youth unemployment.   Spain has very
high rates of both male and female unemployment, and very
high youth unemployment amounting to 50% of total
unemployment.   There is a significant number of households
with unemployed heads, and their per capita income is half
that of households with full time employed heads.

Changes in the population of working age and in the
activity and unemployment rates affect national income, and
hence household and per capita income, by means of changes in
the number of employed people over the total population.   The
values of this ratio for European countries in 1973 and 1985,
are shown in Table 3, and expressed as the product of the
share of the population of working age of the total
population, the share of the labour force (employed and
unemployed) of the population of working age and the share of
the employed of the labour force.   The Table also displays
the values of two slightly different definitions of the
"dependency ratio":   total population over employed people
and total population over labour force.   The dependency ratio
can be usefully interpreted as the average number of persons
who must be maintained by the average level of income of one
employed.

The values of the "dependency ratio" differ widely
between countries.   One group of countries, with relatively
low dependency ratios, is composed of the U.K., Germany and
France.

The lowest value is that of the U.K., due to a
particularly high value of both the male and female rate.
During the seventies the dependency ratio, measured over the
labour force, decreased slightly, because of the rise in
women's participation and in the share of the population of
working age.   The low level of the dependency ratio in
Germany is also imputable to the high share of the population
of working age, which was around 70% in 1983.   During the
seventies and early eighties the increase of this share

TABLE 3

DEPENDENCY RATIOS

	E/TP	PWA/TP	LF/PWA	E/LF	TP/E	TP/LF
FRANCE						
1973	41.1	62.4	67.6	97.4	2.43	2.37
1985	38.8	65.8	65.7	89.8	2.58	2.31
U.K.						
1973	44.6	62.5	72.9	97.8	2.24	2.19
1985	43.1	65.6	74.3	88.5	2.32	2.05
GERMANY						
1973	43.4	63.7	68.8	99.0	2.30	2.28
1985	41.9	70.0	65.2	91.7	2.39	2.19
ITALY						
1973	36.4	65.9	58.9	93.8	2.75	2.58
1985	37.4	69.5	59.7	90.1	2.67	2.41
SPAIN						
1973	37.4	62.5	61.4	97.5	2.75	2.60
1985	28.61	64.9	56.1	78.5	3.50	2.75

Source: Historical Statistics, OECD, Paris 1987.
E: Employment; TP: Total population;
PWA: Population of working age; LF: Labour Force.

offset a fall of 4 points in the rate of activity, stabilising the dependency ratio. France represents an intermediate case, showing a value of the share of the population of working age similar to that of the U.K., and a value of the rate of activity near to that of Germany. The dependency ratio is only slightly higher than in the other two countries. Between 1973 and 1983, as in Germany, the rise in the share of the population of working age counterbalanced a fall in the rate of activity, and stabilised the dependency ratio. In all three countries the slight decrease in the dependency ratio, measured over the labour force, turns into a slight increase in the ratio if measured against employed people, due to the rise in unemployment during period. In 1973 Italy had a much higher dependency ratio than in the three countries considered above. However since 1973 the trend has been towards a decrease in the difference, due to a reduction in the gap

between the activity rate and the share of the population of working age. Spain is an extreme case of a high and increasing dependency ratio. The high value is the cumulative result of the lowest share of the population of working age, the lowest rate of activity and the highest rate of unemployment of all the countries considered. The increase of the ratio between 1973-1983 was produced by the rise in unemployment and the fall in the rate of activity.

4.   THE EVOLUTION OF ECONOMIC INEQUALITY IN EUROPE

Trends in inequality in household income distribution throughout the seventies and early eighties have not been uniform in the European countries. In France and Germany there was a significant decrease in income inequality, in Spain and Italy substantial stability, and an increasing disparity in the U.K.

Between 1970 and 1979 in France the Gini coefficient decreased from 0.444 to 0.404 and the two relative Lorenz curves did not intersect, denoting an unambiguous reduction of inequality. The concentration of income decreased for all types of household considered i.e. working households, wage-earner households and non-working households. The level of concentration remained much higher within non-working households than within working households and was particularly low within wage earners households. The structure of deciles changed in favour of the bottom 50%, and especially the third decile, and to the disadvantage of the two top deciles.

From 1970 to the early eighties in Germany there was a significant shift towards greater equality, with a decrease of the Gini coefficient from 0.392 in 1970 to 0.334 in 1984. The bottom quintiles all increased their share of income at the expense of the fourth and more especially the top quintile. Concentration was reduced for households of every size and type considered, except for the one person and the one earner households. Inequality was relatively high for the small size and the one earner households. This trend towards equality was, however, reversed in 1985 when the Gini coefficient jumped from 0.334 to 0.352 and the top quintile recovered part of the income share lost in the previous fourteen years. Whether 1985 represents the start of a new trend or just a short term interruption of the previous trend is difficult to predict; however, the economic policy measures implemented by the conservative governments since 1982 suggest that the former is the more plausible hypothesis.

The decrease in inequality in Spain between 1973 and 1981 was modest but unambiguous. The Gini coefficient sank from 0.393 to 0.373 and the relative Lorenz curves did not intersect; the structure of deciles changed only slightly

particularly in favour of the first decile and to the detriment of the top two deciles only.

The dispersion of household expenditure remained remarkably stable in Italy from 1976 to 1984, and neither the Gini coefficient nor the structure of deciles have undergone modifications. The concentration of income decreased slightly between 1980 and 1985 with a reduction of the Gini coefficient from 0.317 to 0.306; however, the bottom 50% did not profit much from this reduction which cut the share of the top decile in favour of the sixth, seventh and eighth deciles. Inequality, as in other countries, is higher for the one and two person households than for larger families.

The U.K. is the only country where a significant increase in inequalities occurred between 1973 and 1984. This period can, however, be divided into two different phases: from 1973 to 1979, and from 1979 to 1984. Throughout the seventies there was an increase in inequality in original income due to a rise in the share of income of the four top deciles, and the Gini coefficient increased from 0.407 to 0.426. However, the inequality of household distribution in gross income remained unchanged throughout the period denoting an offsetting action by social transfers. After 1979 there was again a marked rise in the inequality of original income with an increasing of the Gini coefficient from 0.426 to 0.471 in 1984. The State redistributive action by means of taxes and social transfers was not strong enough to balance this tendency of original income, resulting in an increase of inequality in gross and in disposable income. From 1979 to 1984 the Gini coefficient rose from 0.342 to 0.376 for gross income and from 0.316 to 0.337 for disposable income. The increase in inequality is unambiguous since the Lorenz curves for 1984 lie entirely above the Lorenz curves for 1973 and 1979.

The wide disparities in the evolution of household distribution of income between European countries may seem surprising in view of several common features in their economic background during the period. All countries were hit equally by the international economic crisis and experienced a slowing down of growth, a rise in unemployment and in inflation, a fall in the share of profits and a decrease in the share of manufacturing value added and employment. Similarities between European countries can also be found in the economic policies pursued by governments to overcome economic and social problems of the seventies and eighties. At the outset of the crisis governments pursued policies to defend levels of employment and real wages and to restore economic growth in the belief that the previous trend of economic development would be restored. At the end of the seventies, with a timing specific to each country, the analysis of the crisis and the order of priority of economic objectives changed radically. The idea of a structural crisis requiring major changes at economic, social and

institutional level prevailed in most countries. Economic policies were aimed at abating inflation, restoring profitability in industry, introducing elements of flexibility in the labour market and at limiting the role of the State in the economy while economic growth, high employment and social progress no longer received the same general consensus as policy objectives.

The dissimilarity in the evolution of income distribution between European countries, in spite of the many similarities in economic trends and economic policies, confirms the result of the previous research of EFER on the striking combination of common elements .and national differences in European economic development after the second world war.[5] In the fifties and sixties all European countries experienced a prolonged period of economic growth following a broadly similar model of development (known as the `Fordist' model of development in the literature of the French `regulation' school,[6]) of which it is possible to identify the major features in each country. However, behind the common general characteristics, the concrete adaptation of the Fordist model of development was inevitably specific to each country, reflecting the persistence of deep differences in European societies. In the same way, the crisis of the Fordist model of development in the seventies was common to all countries producing similar phenomena all over Europe, and raising the same important questions on the kind of society we live in. But again the concrete forms assumed by these phenomena and the answers given to these questions were inevitably specific to each nation.

The rise in unemployment was, for instance, a general phenomenon, but the social groups hit by the loss or the lack of jobs were not the same in the different countries; the ideological attack on the Welfare State was widespread all over Europe, but its intensity and effectiveness differed drastically from country to country; the claim for more flexibility in the labour market was almost universal but the forms in which these elements of flexibility have been introduced, reflect the specific characteristics of industrial relations and industrial structure in each country. It is not surprising therefore, that a common slowing down of growth in real household income had far from homogeneous consequences on the equality of distribution.

Important differences between European countries can also be found in analysing the causes of changes in distribution.

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[5]   Boyer, `La flexibilite du travail en Europe", Editions La decouverte, Paris, 1986.

[6].   See R. Boyer-J. Mistral, "Accumulation, inflation, crises", Puf, Paris, 1983.

To analyse these changes it is useful to distinguish between the changes resulting from the working of market forces, changes deriving from State action, and changes caused by transformations in the structure and behaviour of the family unit.[7] While the role of the market and the state in producing changes in distribution of income is widely recognized, the role of the family is often ignored. However, as we have already seen, household income distribution is affected by changes in the size and age composition of the family, as well as by changes in the labour market in relation to family members. A proper consideration of the family unit is, therefore, crucial for a better interpretation of changes in income distribution and, in particular, to explain the apparent lack of coherence arising at times between expected changes in household income inequality, considering exclusively state and market forces action, and the actual changes in inequality which reflect structural modifications of the family as well.[8]

In France the decrease in inequality is mainly the result of developments in the labour market, favourable to employees and low paid workers, and of a rise in social transfers favourable to low income families. The share of wages throughout the seventies rose from an average of 49% in 1969-73 to an average of 55% between 1974-76, and remained relatively stable until the end of the decade. This shift in income shares was accompanied by a significant narrowing of earning differentials by socio-economic class and sex. On the expenditure side of the welfare system, the increase in the rate of pensions benefitted inactive households, and the rise in unemployment allowances accrued exclusively to

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[7]. Statistical data related to the wage system, the welfare system and household disposable income is not homogeneous. Therefore the impact of changes in the wage and welfare systems on household distribution can be assessed only qualitatively and with a certain degree of uncertainty.

[8]. It may be useful for the interpretation of the evolution of inequality to keep in mind two characteristics of the Gini coefficient. Firstly, it measures inequality in household income distribution without allowing for different sizes. Secondly, it measures the overall concentration of income regardless of the presence of phenomena of internal mobility. The first characteristic, in particular, may produce some paradoxical results. Since large families generally have a higher household income than small families, an improvement in the relative position of small size families normally results in a decrease of the Gini coefficient, even if, in per capita terms, the large families are much poorer than small families.

working households. The extension of social cover for various transfer items benefitted mainly low income households, such as farmers. Finally, increases in family allowances, which in France play an important redistributive role, have been more selective since 1974 mainly going to manual and clerical worker households whose head is often an unmarried woman with children to care for. On the revenue side, various changes in tax legislation in the seventies and early eighties increased the share of taxes paid by high income earners, resulting in a reduction of inequality in disposable income. Two changes in the family unit may also have affected income distribution: the increase in the number of married couples with husband and wife both working and the decrease in the average family size. The first phenomenon probably reduced inequality in household income because the differentials within women's earnings are narrower than the differentials within men's earnings, and because in France working women are uniformly spread among all social classes. The second phenomenon probably caused increased inequality because of the high concentration of income in small size households where single adults and couples without children have very different levels of income from retired people living alone or in couples.

In Germany between 1970 and 1978 developments in the primary distribution of income and in the welfare system were responsible for the reduction of inequality. The adjusted wage share rose from about 62% in 1970 to 66% in 1975, thus lessening the reasonable assumption that non wage earners were concentrated in the higher deciles. Expenditure on the four main items of social benefits - pensions, unemployment, sickness and accident insurance - increased rapidly because of a rise in the level of benefits and the number of beneficiaries. Because of their concentration in the lower deciles of income distribution, the high proportion of transfers going to pensioners and the unemployed contributed to a reduction of inequality. Changes in the family structure during the period, such as a reduction in the average size and the related increase in the share of single person households, had the opposite effect, but they were not strong enough to offset trends in the labour market and in the welfare state. After 1978 the wage share declined and pay differentials widened, while the growth of social transfers stopped. Reduction of inequality was produced by the impressive rise in the share of multi-earner households, a category which shows a low and decreasing income concentration. The rise in the share of this type of family reflects a socially widespread increase in the participation of married women with relatively low pay differentials. The Gini coefficient rise in 1985 can be attributed, hypothetically, to the conservative policies which produced changes in the welfare system which were unfavourable to low income families, such as a negative growth of social transfers, a rise in the share of transfers going to high income social groups and a rise in the share of taxes paid by low income classes.

In Italy several phenomena which occurred in the seventies, such as the rise in the wage share, the narrowing of wage differentials, the rapid increase in social transfers and in direct taxes pointed to a reduction of inequality. The only phenomenon which had the opposite effect was the reduction in the average size of the family and the related increase in the share of one person households. After the second oil shock some of these trends towards equality were reversed. The share of wages declined, pay differentials widened and unemployment increased rapidly. However, these two phases, which appeared so clearly to the economic observer, did not produce different trends and the inequality of household income distribution remained remarkably stable throughout the whole period. We must therefore conclude that the redistributive effects originated in the market place, and State action, have been weaker than is usually expected, and certainly weak enough to have been counter-balanced by tendencies in both the structure and behaviour of the family unit. This leads us to the further conclusion that in Italy, the shift in the balance of power between classes, social groups, and political parties which has taken place at political, cultural and social levels, did not result in any significant change in the equality of income distribution.

The slight decrease in inequality in Spain is mainly due to the development of the Welfare system throughout the seventies. Fiscal pressure and public expenditure increased rapidly in that period, even if in 1981 their levels were still very low compared to the standards prevailing in Europe. On the revenue side of the system, two aspects of the increase in taxation are worth mentioning: firstly, the increase in the share taken by direct taxes; secondly, the high share of taxes levied on labour income (85%), and the low share levied on capital income(15%). The former probably reduced income concentration within working households, while the latter widened the gap between the income of employees and independent workers. On the expenditure side, the rapid increase of social transfers and, within them, of pensions and unemployment benefits, had a more powerful redistributive effect in decreasing income inequality. Developments in labour relations had less clear-cut effects on income distribution. The adjusted share of wages remained relatively stable throughout the seventies, while in the mid-seventies there was some narrowing of wage differentials. The rise in unemployment, and its economic consequences were serious, because it hit mainly low income groups, and because of the low level coverage of unemployment allowances. More devastating effects were probably avoided by the shock absorber role played by the larger Spanish families, to youth and female unemployment.

Between 1973 and 1979 the Labour Government in power in the U.K. produced a reduction of earning differentials through widespread legislation in favour of workers, and

through the implementation of income policies. In spite of
these government policies, inequality in original income
increased during the period because of the rise in
unemployment, and because of changes in the structure of the
household. The particularly high level of unemployment
reached at the end of the seventies had particularly severe
effects on household income, because a considerable part of
it was composed of males in the middle age classes. The
family structure changed by an increase in the number of
pensioners and in the number of married women working. Both
these trends contributed to an increase income inequality.
The former is the result, common to other European countries,
of the ageing of the population, and it increased inequality
by swelling the number of people in the lower deciles of
income. The latter increased inequality because of the
relative concentration of women at work in high income
deciles, unlike in other countries, where the phenomenon was
observed to be uniformly widespread across society. The
redistributive action of the welfare state, through large
increases in all items of social transfers, was, however,
very effective, following the commitment of the Labour
Government to improve the relative position of low income
groups and the allowances to beneficiaries. As a result, no
changes occurred in the equality of gross income
distribution. After 1979, with the Conservative Government
in charge, labour market relations were left more to supply
and demand. This resulted in a further rise in unemployment
and in a widening of wage differentials. The commitment of
the government to limit the role of the State in the economy
was implemented, through, among other things, cuts in social
expenditure and regressive changes in the system of
taxation. The obvious result was an increase in inequality,
not only in original income distribution but in gross income
and disposable income distribution as well.

5.   THE PATTERN OF INEQUALITY

     Inequality in income distribution emerges from our
analysis as a multidimensional phenomenon. Consequently,
levels of household income cannot be determined by the use of
a single indicator, many different factors have to be taken
into account.

     This lack of a simple relationship between the level of
income and any single socio-economic variable has reinforced
the widespread conviction that the diversity of social groups
in contemporary capitalist societies have become so complex
as to be intractable for scientific analysis. In particular,
the ending of the clear connection between the social class
of the head of household and the income range into which the
household falls, has strengthened the opinion that meaningful

criteria for distinguishing and analysing social classes no
longer exists.

Thus, the emphasis on `complexity' is perfectly justified and our analysis of income distribution fully confirms this fundamental characteristic of modern European societies; however, social complexity should not be confused with social muddle nor allowed to obscure what actually happens. Our analysis, from the specific perspective of the process of income distribution, singles out various factors which lead to inequality, and shows that from the relationship between these factors and the whole economic system, a pattern of income inequality, however complex, can be observed.

In all countries there are three sets of factors which have been found to play an important part in determining income inequality. We will analyse them in turn.

Some income inequality arises from differences in the phase of the life-cycle in which households find themselves. Each single household is, in fact, likely to occupy different positions in the income hierarchy throughout its life, as income changes with changes in the age and composition of the family. Individual income is a function of age, and generally follows a well identified temporal pattern, rising to the age of retirement and falling afterwards. Household income, however, depends on the level of individual incomes and on the number of people working which, in turn, is affected by the composition of the family, i.e. the relative numbers of adults and children. Young couples, without children, may therefore receive a relatively high income, in spite of low individual earnings, if husband and wife are both working. The birth of children has a negative effect on household income, particularly in the pre-school phase of their life when the woman is likely to become economically inactive, or to reduce her working time. Household income recovers in the following phase when children have grown up and the woman finds it easier to work, thereby adding her income to that of the husband, which, in the meantime, has increased with his age. Family income reaches its peak when adult children, still living in the original family, add their personal income to that of parents still working or receiving a pension. Finally, household income falls abruptly as adult children leave the original family and the parents retire.

The household's standard of living only partly follows the path of its income, being determined, in each phase of the family's life-cycle, by the adequacy of the household income to meet it's changing needs in respect of changes in size and composition.

The life-cycle income disparity is, by definition, related to demographic factors; however, it would be wrong to consider it a `natural' and therefore `unavoidable' and `unchangeable' cause of inequality. On the contrary, the link between this source of income inequality and specific

characteristics of the socio-economic system should be appreciated. There is nothing `natural', for instance, in young peoples' lower than average income; but even assuming that this must be so because of hard economic laws, how low this income actually is depends on the characteristics of the demand for labour, and on the type of employment policies pursued in each country. The presence of children, to take a second example, is a factor which inhibits work by women; however, women's propensity to work while their children are of pre-school age is influenced by the level and quality of childcare facilities, and by the extent of the demand for labour, requiring more flexibility in working time or in the duration of the job. The size of the family, to take a further example, has a negative affect on the standard of living, but its impact can be more or less offset by fiscal concessions or by family supplements. It is important to emphasize that even inequalities arising from life-cycle aspects of distribution are largely affected by the interaction between the wage and welfare systems and family behaviour; and also that differences between countries in the pattern of inequality can only be picked out by reference to these aspects of the socio-economic structure.

A second set of factors, which has been found to be a determining cause of inequality, relates to the household's relationship with the labour market. Essentially this comprises the employment status of the head and the number of workers in the family.

Income of households with heads employed is much higher than income of households whose heads are unemployed, inactive or retired. This generally results in a lower standard of living in households headed by unemployed or inactive persons. Whether retired people have a lower than average standard of living is, however, open to doubt once the small size of this type of family is taken into account. Assessment of the relative position of retired households, in terms of welfare, depends on the choice of indicator used to compare income of families of different sizes. In terms of per capita income, pensioners seem to enjoy a standard of living close to the average, while in terms of equivalent income, a situation of relative deprivation is more likely to emerge. In this case too, the economic situation of unemployed and retired people is determined ultimately by the welfare system, by means of the level and coverage of benefits, and by the family, by means of the protection provided for members in difficulties. As far as unemployment is concerned, in countries where it has significantly hit household heads, the economic situation of unemployed households is very sensitive to changes in the level of benefits, as in the U.K.; whereas in countries like Spain and Italy, where a considerable part of unemployment is composed of young people, it is the family which makes up for the low or partial coverage of unemployment benefits. There are important differences between countries in the retired economic situation as well. There is some evidence that in

countries like Spain, the U.K. or Italy the retired households are more often found in the lower part of income distribution, although this does not seem to be the case in France. Peculiarities in the structure of national welfare systems may produce differences in treatment within a homogeneous group of population in each country. This is the case, for instance, in the U.K., where a wide income gap divides State pensioners and people dependent on private pensions, and in Italy, where many types of pension coexist with very different levels of benefits.

The number of workers in the family, as mentioned above, is an important cause of income disparities. Apart from being affected by demographic factors, changes in the number of workers have, historically, resulted from the interaction between the growth of the welfare systems, the characteristics of the demand for labour and long run cultural transformations in family behaviour. This factor of inequality has become more important in all European countries due, mainly, to the impressive rise in women's participation over the last decade. The relevance of this factor of inequality in a comparison between countries depends on the relative levels of the female rate of activity, and on the characteristics of female employment. Differences in the former, already analysed, have shown wide disparities between the U.K., Germany and France on the one hand, and Spain on the other, with Italy lying in the middle. Differences in the latter depend mainly on the share of part-time work, leaving aside disparities in pay differentials by sex. The income contribution of working women is higher in France than in the U.K., due to the prevalence of full time work in France and of part time work in the U.K.

The impact on the overall degree of inequality of rising female employment depends on both the social diffusion of the phenomenon, and the amplitude of wage differentials among working women. Important differences between countries arise in relation to the first aspect. In France and Germany the increase in women's participation occurred quite uniformly in all social classes, producing a reduction of inequalities, while in the U.K., there is evidence of a concentration in high income families causing an increase in household income inequality. On the whole, however, the judgment on this social phenomenon can only be positive, because it reduces individual inequalities by sex, and offers a concrete opportunity for low income families to improve their relative position in the income hierarchy. On the other hand, the lack of a second earner's contribution is very detrimental to the standard of living of several households, particularly those with large size families. It seems that ultimately, we are evolving towards a model of society in which the participation of various members in the make-up of household income is more a matter of necessity rather than a matter of choice.

The third set of factors which helps to determine the household income position relates to the social class of the head, and is comprised of the sector of activity, the socio-professional category, the skill and the level of education.

The income of the head emerges from our analysis as the central component of household income in all countries, even in those where married women participate and their income contribution is relatively high. The increase in the number of workers in the family has, therefore, modified the sexual division of labour within the family, leaving, unaltered, the priority of the respective responsibilities. Differences in the head of household's earnings are therefore still crucial in determining the income and standard of living of each household.

The evidence supplied in the national reports in relation to employed heads shows that social class variables still play a definite role in determining the level of income. Pay differentials are particularly high by socio-professional category and by skill, though they are less important by sector of activity, with the exception of workers in agriculture in some countries and areas. Also significant is the positive relationship between the level of education and income range, as it relates income and education by socio-professional category. Finally, a clear relationship emerges between the socio-professional category of the father and the level of education of the children denoting a transmission of inequalities from generation to generation. Quite clearly the link between individual income, socio-professional category and education is far from being perfect or invariable. In various countries pay differentials have undergone important modifications, with gradual and significant changes in the relative position of different social groups; new professional categories have emerged while others have declined, following the changing structure of employment. A weakening of the relationship between education and income has occurred, as shown by the presence of high income categories with low levels of education, particularly within the self-employed. However, on the whole, our results, though based on rough and unsatisfactory criteria of disaggregation, show how the largely held opinion, that we live in a sort of social chaos where any class distinction has become meaningless, is unfounded, at least as far as income distribution analysis is concerned.

If we concentrate on household rather than individual income, these findings can be partially modified. On the one hand, the income hierarchy by socio-professional category of the head is fully confirmed; on the other hand, the dispersion along the ladder of income is more pronounced. Manual households, for instance, are still concentrated in the low and middle deciles of distribution, but they can be

found in significant numbers in the upper deciles as well; professional, technical, administrative and managerial households can mostly be found in the upper deciles, but a not irrelevant share lies in the central deciles as well. This relative dispersion of income brings us back to the first finding of our analysis, that is, the multidimensional aspect of distribution, and the impossibility of positioning unequivocally a household in an income bracket by the use of a single criterium. The social class of the head is still a key element of division in income distribution but its effects can be corrected or accentuated by the working of other factors of inequality, and by the contribution to the household income of other sources of income.[9]

Using these three sets of factors a general pattern of income inequality for European countries can be described, and the household position in the income distribution pattern is determined by specific combinations of these factors. To conclude these introductory notes, three final qualifications to such a pattern are worth mentioning.

Firstly, phenomena of upward and downward social mobility, or even situations of poverty are produced by particularly favourable or unfavourable combinations of these factors, and national reports offer a wide range of household types according to the various possible combinations. For instance, households with more than one worker are unlikely to be found at the lower level of distribution, even if the head belongs to a low income socio-professional category, while one earner households of middle to high income heads, with high dependency ratios, may experience a significant deterioration of their standard of living; manual or agricultural households experiencing unemployment, or with one earner only, are concentrated at the bottom of the distribution level together with retired people living alone on modest pensions, and with single parent families headed by inactive women. The study of these combinations of factors is clearly crucial to the identification dynamic sequences leading to relative deprivation, and population groups which are likely to be disadvantaged.

Secondly, the relative importance of each of these three factors varies from country to country revealing interesting differences in the social classes' structure and in the labour market conditions. For instance, in their report on the U.K., Sara Horrell and Jill Rubery maintain that the

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9.   This does not apply to the top level of distribution – the few giants of Pen's parade – the position of which remains untouched. See J. Pen `A parade of dwarfs (and a few giants)' in `Wealth, Income & Inequality' A. B. Atkinson (ed.), Oxford University Press, 1980 extract from `Income distribution', Penguin books, 1971.

labour market relationship of the household has become a more reliable indicator of the household position in the distribution of income than the social class of the head. Whereas, Veronique Sandoval finds that in France other factors, however important, seldom reverse the relative income position obtained by belonging to a social class. These and other differences show that the common pattern of inequality we have described, must be adapted to the specific situation of each country.

Thirdly, the pattern of income inequalities described does not include all possible factors working at national level. For instance, the Italian situation cannot be explained without giving a central position to the geographical dimension of inequality; regional disparities have also been found to play an important role in the Spanish experience, and is a question emerging in the North and perhaps, in the U.K. as well. In Germany, the U.K. and France indirect information suggests that racial factors play a part in determining the bottom level of income distribution. All this implies that the common pattern of income inequality must be integrated to fit national experience.

INCOME DISTRIBUTION IN FRANCE

1.   INTRODUCTION

After the years of growth that France had experienced during the early sixties, 1968 marked the beginning of a crisis.

First there was a social crisis. Besides the students' revolt, nine million employees were on strike. The growth in national income did not prevent the growth of income inequalities, and the first demand on the government was to make a significant increase in the minimum wage.

It was also a political crisis, after 10 years, of government with General De Gaulle at the head. Although of the government. Though 1968 gave the right the greatest majority it had known since the war, De Gaulle left the government in 1969. At the same time, France began to restructure its industry as part of its greater integration into the European Common Market. Moreover, the political agreement which took place in 1972 between the Socialist Party and the Communist Party lead to increased support for the Socialist Party and to its accession to the Presidency of the Republic and to government in 1981.

The restructuring of French industry which subsequently took place occurred within a serious economic crisis with numerous firms going bankrupt, with thousands of jobs ebing lost, and with a break in the upward growth of national income.

The consequences of this crisis for income distribution in France is the subject of this chapter.

2.   STRUCTURAL CHANGES AFFECTING POPULATION AND INCOME SINCE 1970.

The evolution of a population's standard of living depends on its growth in size in relation to that of the National Income. This in turn is conditional upon the number of people working in relation to the rest of the population. Finally, income distribution between households depends on both the non-employed and the employed in these households, as it depends on the share of social transfers in the National Revenue.

2.1 Changes affecting the population of France

Per capita income growth depends on the relative percentage of working people and on their productivity. From this point of view, four background movements concerning the

French population are influential: the ageing population, the increase in the female rate of activity, unemployment growth, and the improved qualifications of employees.

2.1.1 Changes in the age structure of population

Between 1968 and 1982, we observed a decrease in the number of children and young people under 19 years old in relation to the size of the working population (France getting in line with other European countries). This trend, together with a static retired population, has been influenced by the growth of per capita income.

In the future, however, we can expect a decrease in the number of people between 20 and 59 years of age, and an increase in people over 60 years old.

TABLE 2.1

AGE DISTRIBUTION OF POPULATION

	1968	1975	1982
Under 19 years old	32.2	30.7	28.7
From 20 to 59 years old	49.0	50.3	52.8
Over 60 years old	18.8	19.0	18.5

(Source: Census)

2.1.2 Increase in Women's labour force participation

Between 1968 and 1982 the working population grew faster than the whole population because of an increase in the labour market participation of women between 20 and 60 years of age (see table 2(c)).

The rate of female participation in the labour force in France was 34.8% in 1984, very close to that of Germany (35.3%) and much higher than that of Italy (27.9%). The increasing participation of women in the labour market is seen among single women, widows or divorced women, but it is among married women that we find the most important change.

TABLE 2.2

WORKING POPULATION

	1968	1975	1982
Total population (in thousands)	49.655	52.587	54.296
Working population - in thousands	19.935	21.771	23.525
- as % of total population	40.1	41.4	43.3

There has been an increase of more than 20 points in their rate of activity in the last 20 years for those between 20 and 50 years old. It cannot be related to a great expansion of part-time work,[10] because such an expansion did not occur in France, and in 1986 only 15% of women employees (and 2% of men) were part-timers.

2.1.3 A dramatic increase in unemployment since 1974.

Unemployment affected only 2.2% of the working population in 1968, 3.8% in 1975 but 8.8% in 1982 and 9.3% in 1986.

At the beginning of the seventies (1971) the rate of unemployment was 2.9% for women and 1.5% for men. Fifteen years later the figures were 11.2% and 7.9% respectively.

The proportion of young people, under 25 years old has decreased slightly (from 37.3% to 34.5%), not because they find a job more easily, but because they remain at school until they are 18 or over.

Furthermore, the increasing proportion of unemployed who are between 25 and 49 years old (from 38.6% to 51.8%), in relation to those who are 50 years old or more cannot be put down entirely to the expansion of early retirement, and must in part be due to the numerous redundancies in the manufacturing industry.

2.1.4 Changes in the structure of the labour force

The number of employees as a percentage of the working population was 79.5% in 1970, higher than that observed in Italy (68.2%) but less than that of Germany (83.3%) and of

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10. Employees working less than 30 hours a week.

the United Kingdom (92.4%). It has increased since, and was 84.1% in 1982.

On the other hand, the number of farmers in 1982 represented only 60% of their number in 1968. In fact the integration of France into the Common Market, where the competition was greater, led to the disappearance of thousands of little farms.

Changes have also occurred among employees. They work more and more often in the service industry. The employees who worked in the manufacturing industry represented 72% of the employees in 1968, 66% in 1973 and only 54% in 1984. Most of them (70%) were manual workers against only 18% in the service industry. In 1984, manual workers still represented 65% of the employees working in the manufacturing industry but their percentage of total population of employees decreased. The women who swelled the labour force between 1973 and 1983 belong to the clerical and salaried staff levels. The men belong to the salaried staff and executive levels.

TABLE 2.3

WOMEN'S PARTICIPATION IN THE LABOUR FORCE
ACCORDING TO THEIR STATUS

	Single Women		Married		Widows		Divorced		All Women	
	1962	1982	1962	1982	1962	1982	1962	1982	1962	198
15-19 years old	35.3	16.2	41.9	30.6	57.5	13.6	60.0	58.1	35.5	16.7
20-24 years old	74.3	66.7	45.2	67.1	60.2	55.3	80.3	82.6	61.5	66.S
25-29 years old	79.8	83.9	36.2	64.9	55.3	69.0	73.4	84.5	45.3	65.5
30-34 years old	78.5	86.1	32.0	62.4	56.8	71.0	75.7	86.2	38.7	67.0
35-39 years old	77.6	84.3	33.4	61.2	62.3	77.1	76.4	87.1	39.5	65.1
40-44 years old	76.5	82.3	35.0	58.0	67.0	75.1	76.7	87.1	41.2	62.0
45-49 years old	75.0	79.7	38.2	54.1	66.6	72.7	78.0	83.9	45.0	58.3
50-54 years old	73.8	78.0	38.4	49.0	61.7	64.6	73.4	81.3	45.3	54.1
55-59 years old	68.5	70.8	34.6	39.8	53.8	49.7	69.7	71.0	42.2	45.0
60-64 years old	57.2	42.3	26.7	18.6	39.1	23.2	55.4	38.9	33.9	22.3
65 years old	22.3	5.5	10.4	2.2	8.8	1.4	18.8	4.5	11.0	2.2
All Ages	53.6	46.2	32.4	47.5	22.4	12.6	63.0	67.6	36.2	43.0

Source: recensenents

TABLE 2.4

CHANGES IN THE STRUCTURE OF THE POPULATION
OF EMPLOYEES (IN THOUSANDS)

	1968-1973	1973-1980	1980-1983
Executives			
- men	+ 62	+ 283	+ 73
- women	+ 14	+ 63	+ 17
Salaried Staff			
- men	+ 248	+ 236	+ 58
- women	+ 143	+ 322	+ 41
Clerical Staff			
- men	+ 107	+ 30	- 54
- women	+ 367	+ 225	+ 105
Manual Workers			
- men	+ 475	- 323	- 238
- women	+ 264	- 114	- 106

(Source: Declarations annuelles de salaires)

2.1.5 Summary

Manual workers are affected most by job losses in the manufacturing industry, and their rate of unemployment which was 2% against 1.3% for the whole employed population in 1968, reached 11.7% (against 8.8%) and more than 17% for women manual workers in 1984.   The population of employees is concentrated more and more in the less stable occupations in the service industry, and are often held by women.

Despite a decrease in the number of young people (under 19 years old), in relation to the number of those of working age, and despite an increased number of women in the labour market, the dependency ratio (or the non-employed population as a percentage of total population) remained stable throughout the entire period, because of an [unknown expansion] of unemployment since 1973.

	1968	1975	1982
Dependency ratio	60.7	60.2	60.5

It appears that while the manufacturing industry was throwing out men manual workers women, as well as swelling the labour market in the service industry, have played determining roles in regulating the labour force, in accordance with the needs of the market, and in the equilibrium of household resources.

2.2 Changes affecting the structure of income

The expansion of the work force obviously increased the importance of wages, but it also affected wage differentials. If the growth of transfer payments has not slowed down as much as original income since 1973, the social transfers structure has changed and the recipients are no longer the same.

2.2.1 The increasing importance of wages and changes in wage differentials

In 1973 wages represented 54.6% of original income, but 66.1% in 1983. In other respects the trend towards a narrowing of wage differentials, which began in 1968, has continued. The gap between the average male and female wage, which was 33% of the male wage in 1968, was only 26% in 1983, and even less if calculated with a constant structure of employees. The massive entry of young women and men into the salaried staff and executive groups partially explains the narrowing of wage differentials.

TABLE 2.5

INDEX OF WAGES ACCORDING TO SOCIO-ECONOMIC CLASS OF EMPLOYEES

	1968	1973	1980	1983
Executives	350	325	260	253
Salaried staff	166	156	134	131
Clerical staff	88	87	84	82
Manual workers	79	81	82	80
All employees	100	100	100	100

(Source: Declarations annuelles de salaires)

The narrowing of wage differentials may also be due to a political policy expressed in government recommendations. Yet wage differentials according to the age of employees do not seem to decrease. They are not the same for manual and clerical workers as for the salaried staff. Manual and

clerical workers of 41 to 50 years of age are the ones who earn more, but on average only about 12 per cent more than the mean. On the other hand, among salaried staff, those who earn more are the oldest. They are 60 to 65 years old, (even older than 65 among the executives).

Though we do not have much statistical data on these wage differentials, it appears that there is a trend towards a slight increase (Table 2.6).

TABLE 2.6

INDEX OF WAGES ACCORDING TO AGE, FOR DIFFERENT SOCIO-ECONOMIC CLASSES OF EMPLOYEES

	Executives		Salaried staff		Clerical workers		Manual workers	
	1975	1979	1975	1979	1975	1979	1975	1979
Under 18 years old	–	–	–	–	41	37	42	36
From 18 to 20	–	–	39	49	69	68	69	67
From 22 to 25	39	40	64	67	87	85	88	86
From 26 to 30	62	62	87	85	104	101	103	100
From 31 to 40	91	91	108	104	114	112	112	110
From 41 to 50	109	108	114	114	115	113	112	112
From 51 to 60	112	115	115	115	112	112	108	109
From 61 to 65	128	129	113	117	105	108	97	98
Over 65 years old	126	134	96	102	98	98	86	85
All employees	100	100	100	100	100	100	100	100

(Source: Declarations annuelles de salaires)

2.2.2 The growth of transfer payments and taxes

Social transfers made up 23.3% of gross income in 1970. In 1984 they made up 33.2%.

The government financial contribution to these payments was reduced from 22.5% in 1970 to 21% in 1980, but it has increased sharply since then because of government expenditure in favour of the unemployed. Income tax has been higher since the end of the seventies.

Various changes in tax legislation were introduced. Some of them concerned every household which paid income taxes. This was the case with the introduction in 1982 and 1983 of a social contribution of 1% of total income, dedicated to unemployment allowances. Other changes were to the advantage of households with many children. For instance, since 1980 an

additional "half-point" in the "familiar ratio" (which divide the total income of the household to calculate the income taxes to be paid) has been given to the tax-payers with at least 3 children to feed.[11]

TABLE 2.7

BURDEN OF SOCIAL TRANSFERS AND TAXES

	1970	1975	1979	1984
Original income	76.78	73.1	70.8	66.7
Social transfers	23.3	26.9	29.2	33.2
Gross income	100	100	100	100
Direct taxes	6.2	6.3	7.3	8.9

(Source: C.E.R.C.)

Others have had a direct redistributive effect. This was the case with the change in the tax-table at the end of 1973 which benefitted poor tax-payers, and also the exceptional increase of 10% in income tax which the salaried staff households, with two people working, had to pay. And also the progressive additional tax created in 1984, and the introduction of an additional step on the tax-table at a higher rate.

On the other hand, the national insurance contributions paid by employees have increased in relation to those paid by employers.

2.2.3 The Welfare State

Despite a steady decrease in the rate of growth of social transfers since 1975 they have, nevertheless, helped to deaden the shock of the dramatic slowing down of wages on the disposable income of households, especially for households with one wage-earner.

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[11]. A one person household has a familiar ratio of 1. A married couple with no childred
still living with them has a familiar ratio of 2. This ratio is increased by 0.5 for each child less than 18 years old. But since 1980 a married couple with 3 children to care for, instead of having a familiar ratio of 3.5, has one of 4.

TABLE 2.8

FINANCING STRUCTURE OF WELFARE

	1970	1975	1980	1983
National insurance contributions of				
- employers	57.4	56.4	54.1	51.4
- employees	13.4	14.5	18.5	18.0
- self-employed	5.0	4.1	4.7	5.0
Government contribution	22.5	23.4	21.0	23.9
Other returns	1.7	1.6	1.7	1.7
Total returns	100.0	100.0	100.0	100.0

TABLE 2.9

RESPECTIVE ANNUAL RATE OF GROWTH OF ORIGINAL INCOME, SOCIAL TRANSFERS AND DISPOSABLE INCOME (measured as increases in purchasing power)

	1970-1975	1975-1979	1979-1984
Original income (income from labour property)	2.3%	0.4%	- 1.4%
Social transfers	6.3%	3.4%	2.4%
Disposable income	3.3%	1.1%	- 0.6%

Within the total amount of social transfers, the contribution from family benefits and allowances decreased, despite a revival of family policy since 1974.

Between 1960 and 1974, the growth rate of family benefits was below that of average wages. Since 1974 this has no longer been the case. The family policy has become more selective, and is addressed almost exclusively to families with modest incomes.

Since 1972 the benefit paid to one-wage households, (Allocation de salaire unique) is only paid to those households where income does not exceed the amount considered to be a

ceiling. This only benefits the poorest, particularly single parent families. The family income supplement (complement familial), which was introduced in 1978 in place of several family benefits, is also reserved for families whose total income is below a fixed ceiling.

Health spending has also seen its share reduced despite a real growth in the number of recipients. This growth was due to the extension of social cover to non-wage earners, and to the action of a long-term trend, resulting from both progress in medical techniques and increased expectations of medical care.

The reduction of the share of health spending in the total amount of social transfers is, therefore, only a mathematical effect of the very high growth of unemployment allowances since 1975.

TABLE 2.10

RELATIVE SHARE OF VARIOUS ALLOWANCES

	1970	1979	1984
Family allowances	17	14	13
Medical care	38	32	31
Pensions	39	42	40
Unemployment allowances	2	7	11
Other allowances	4	5	5
All	100	100	100

(Source: Comptes de la Nation - C.E.R.C)

Facing an unknown increase in the number of redundancies and job losses, the policy followed (through the main amendments of July 1979, November 1982, and April 1984) gradually abolished the particularly favourable conditions reserved for economic redundancies in favour of a greater homogeneity in the rates of compensation, and of an extension of the allowances to the unemployed who, before this, had received nothing. It was also used to create a pre-retirement allowance for the older employees who leave work before they are 60 years old.

Finally, the purchasing power of the pensions and rents paid by the Social Security Administration did not grow at the same rate as that of hourly wages (except in 1980-81 and 1984). But, according to the C.E.R.C. the difference in the annual rate of growth between the average pension and the average wage was 0.3% in favour of pensions from 1975 to 1983, against 1.8% in favour of the average wage between 1967 and 1974. Furthermore, more older farmers and self-employed people became eligible to receive this kind of social transfer.

For old people the minimum income paid to the poorest inactive households, was often revalued during the period.

TABLE 2.11 ·

MEAN ANNUAL RATE OF GROWTH OF HOURLY WAGE, PENSIONS PAID BY THE SOCIAL SECURITY ADMINISTRATION, AND OLD PEOPLE'S MINIMUM INCOME

	average 1971-76	1977	1978	1979	1980	1981	1982	1983	198₄
Hourly wage	14.5%	12.7%	12.6%	12.9%	15.3%	15.0%	15.4%	11.2%	7.₆
Pensions	13.9%	11.8%	10.3%	11.0%	15.2%	15.8%	12.6%	7.2%	7.₇
Old people minimum inc.	20.3%	15.8%	20.0%	16.7%	12.6%	23.8%	32.4%	9.2%	4.₉

(Source: Comptes de la Nation)

2.2.4 Summary

Not all households received the same benefit from the growth of social transfers and from the corresponding increase in the burden of taxes paid.

The changes in fiscal policy, as we have already seen, have mostly profited the poorest, to the detriment of the richest.   But social transfers do not deal with the redistribution of income, but with the meeting of people's needs.   They also deal with compensation for expenses connected with a particular situation (illness, unemployment, retirement ...) which may be that of the head of the household, or that of another member of the household, and which is not directly linked to the amount of total income the household receives each year.

That is how, for example, a member of Mr. Dupont's household (an executive), may receive a pension despite the fact that the increase in the amount of pensions mainly benefitted inactive households.   On the other hand, the growth of unemployment allowances since 1975, and 1979, concerned working households almost exclusively, and more precisely wage earners.

Two sections of the population are sick more often than others: old people and young children. The population of old people, is not the same as that of non-working households.   Also young children are found in all other groups of households.   However, the farmers were the main

beneficiaries of the extension of social cover to non-wage earners at the beginning of the period.

Finally, family allowances were more profitable to manual workers with a modest income and, more often than the other groups, a large family, and to clerical workers whose head of household is often an unmarried or divorced woman (or a widow), with one or two children to care for.

TABLE 2.12

DIFFERENCES IN THE ANNUAL RATE OF GROWTH OF SOCIAL TRANSFERS ACCORDING TO THE SOCIO-ECONOMIC GROUP OF THE HEAD OF THE HOUSEHOLD

	1970-75	1975-79	1979-84
Non-working households	6.4%	5.5%	2.0%
Working households of which	5.9%	1.1%	2.7%
Farmers	6.4%	4.9%	1.4%
Self-employed	5.2%	1.6%	1.6%
Executive	4.3%	− 6.1%	2.8%
Salaried staff	4.7%	− 0.2%	2.9%
Clerical workers	5.5%	− 0.5%	3.8%
Manual workers	6.0%	3.2%	2.8%

2.3. Changes affecting the size and structure of households

The decreasing size of average households, and the changes in the distribution of married couples among those where husband and wife are both working, and who have no children, and those where the husband is the only one to work and who have three children or more, also affect the distribution of per capita income.

2.3.1 Increasing number of households composed of one adult

The number of households composed of only one adult increased at the annual rate of 1.7% during the sixties and at an annual rate of growth of 3% since 1968.

Several factors explain this: the mortality rate has fallen such that average life-time has increased, particularly for women, and the number of old people living alone has increased due to different generations no longer being members of the same household. Also young people are remaining single longer and divorce is more frequent, thus creating more single households in the young age groups. This factor seems the most influential, as the increase in

the number of single households is higher for men (3.5%) than for women (2.6%) and the percentage of single households composed of men or women of 25 to 54 years old increased throughout the period.

TABLE 2.13

HOUSEHOLDS COMPOSED OF ONLY ONE ADULT

		1968	1975	1982
Men	(thousands)	1,022	1,312	1,666
	including (in %)			
	15-24 years old	9.8	10.4	11.1
	25-54 years old	40.1	45.8	48.2
	55 and over	50.1	43.8	40.7
Women	(thousands)	2,176	2,623	3,151
	including (in %)			
	15-24 years old	3.4	5.3	6.5
	25-54 years old	15.2	18.5	20.4
	55 and over	81.4	76.2	73.1
All		3,198	3,935	4,817
	including (in %)			
	Non-working	58.5	59.1	58.9

2.3.2 Increasing number of married couples with husband and wife both working

The number of these couples increased 33.4% between 1968 and 1975, and 19.8% between 1975 and 1981, against a decrease of 8.5% and 12.7% respectively, for married couples where the husband was the only one to work.

In 1968 couples where both husband and wife were working were mainly 40 years old and over, the younger couples being less numerous. Now they are more often under 40 years old, although this is not the case for married couples where the husband is the only one working.

Also couples with two or more children, where both parents work, are more numerous than in 1968. This is not the case with married couples where the husband is the only one working.

2.3.3 Decrease in the size of the family

Between 1968 and 1982 we observed a sharp decrease in the number of large families, partly due to the increase in married women's participation in the labour force. But, as we see below, married women no longer stop working when they have their second or even third child, while, non-working married women with three or more children, are increasingly in a minority.

TABLE 2.14

CHANGES IN THE DISTRIBUTION OF FAMILIES
(MARRIED COUPLES AND SINGLE PARENT FAMILIES)
ACCORDING TO THE NUMBER OF CHILDREN THEY HAVE

	1968	1982
No children	48.2%	50.5%
One child	21.8%	22.7%
Two children	15.7%	17.7%
Three children or more	14.3%	9.1%
(of which 4 or more)	(6.4%)	(2.6%)

2.3.4. Summary

As the percentage of single parent families did not increase much during the period, divorced women having changed place with widows, what evolved can be expected to have brought about an homogenisation of the quotient (calculated within each household) between the number of people earning an income or receiving a transfer, and the total number of persons in the household. Therefore they only contributed to a reduction of the differences in standard of living between households.

This is more precisely the case within the population of married couples in which only fifteen years ago, the gap in the standard of living could be very important between those with no children and husband and wife both working, and those, nearly as numerous, where the wife did not bring a wage home, and who had 3 children or more.

Today, in every socio-economic group, married couples with husband and wife both working are more numerous than those where the wife does not work, and they have almost the same number of children. Today, the percentage of couples with 3 or more children is below 10% of all couples.

TABLE 2.15

CHANGES IN THE DISTRIBUTION OF THE HOUSEHOLD
POPULATION ACCORDING TO THE DIFFERENT STANDARDS

	1968	1982
Married couples		
- with wife working	23.9%	32.8%
- with wife not working	46.2%	34.2%
Single parent families	4.2%	4.3%
Single persons	20.3%	24.6%
Others	5.4%	4.1%
Average number of persons per household	3.1	2.7

3. CAUSES OF THE CHANGES OBSERVED IN THE INCOME DISTRIBUTION SINCE 1970.

Since 1970 the dispersion of household income decreased. However, this does not mean we are now living in a more egalitarian society. Everything depends on the definition of equality we have. But we can expect the structural changes observed above to have had an influence on the distribution of income, and so can ask what happened to the main sources of inequality?

3.1 Changes in income distribution

To observe such changes we can only refer to the income survey which uses income declared to the Tax Administration. As shown in the appendix this declared income partly overlaps the definition of original income for wage earner households. But it also includes pensions to non-working persons and is prone to understatement of self employment income and investment income. Furthermore, the last survey we have access to covers the year 1979.

3.1.1 The distribution of income

The data on the distribution of household income by deciles is shown in Tables 3.2 and 3.2.

It demonstrates that there was a decrease in the dispersion of income throughout the entire period, as the

Lorenz curves do not intersect. But the reduction of the top
quintile's share of total income from 48.3% to 45.4%, does
not really benefit the bottom quintile: instead the main
beneficiary is the third decile.

TABLE 3.1

CHANGES IN THE DISTRIBUTION OF DECLARED INCOME SINCE 1970

Deciles arranged by declared income	Percentage of income going to each decile		
	1970	1975	1979
10	0.9	1.2	1.4
20	2.7	3.1	3.4
30	3.6	4.6	4.8
40	5.7	5.9	6.1
50	6.9	7.1	7.2
60	8.5	8.6	8.7
70	10.8	10.4	10.4
80	12.7	12.7	12.6
90	16.6	16.2	15.9
100	32.0	30.2	29.5

(Source: INSEE, Income Survey)

TABLE 3.2

PERCENTAGE OF INCOME GOING TO THE BOTTOM 25, 50 AND
75% OF HOUSEHOLDS

	1970	1975	1979
to the bottom 25%	5.6%	6.4%	7.1%
to the bottom 50%	20.3%	21.9%	22.9%
to the bottom 75%	45.0%	46.9%	48.0%

(Source: INSEE, Income Survey)

It we take a look at the Gini coefficients which have
been calculated for different populations, we see that the
highest dispersion is observed among non-working households.
Furthermore, dispersion of income is lower among employee
households than among the households of the whole working
population, which covers self employed households as well as
wage earners.

TABLE 3.3

GINI COEFFICIENTS

	1970	1975	1979
For the whole population	0.444	0.418	0.404
For working households	0.402	0.380	0.373
For non-working households	0.479	0.449	0.428
For employees (wage-earner) households	0.346	0.340	0.327

(Source: INSEE, Income Survey)

LORENZ CURVES

—.—.— 1970
— — — — 1975
— — — —1979
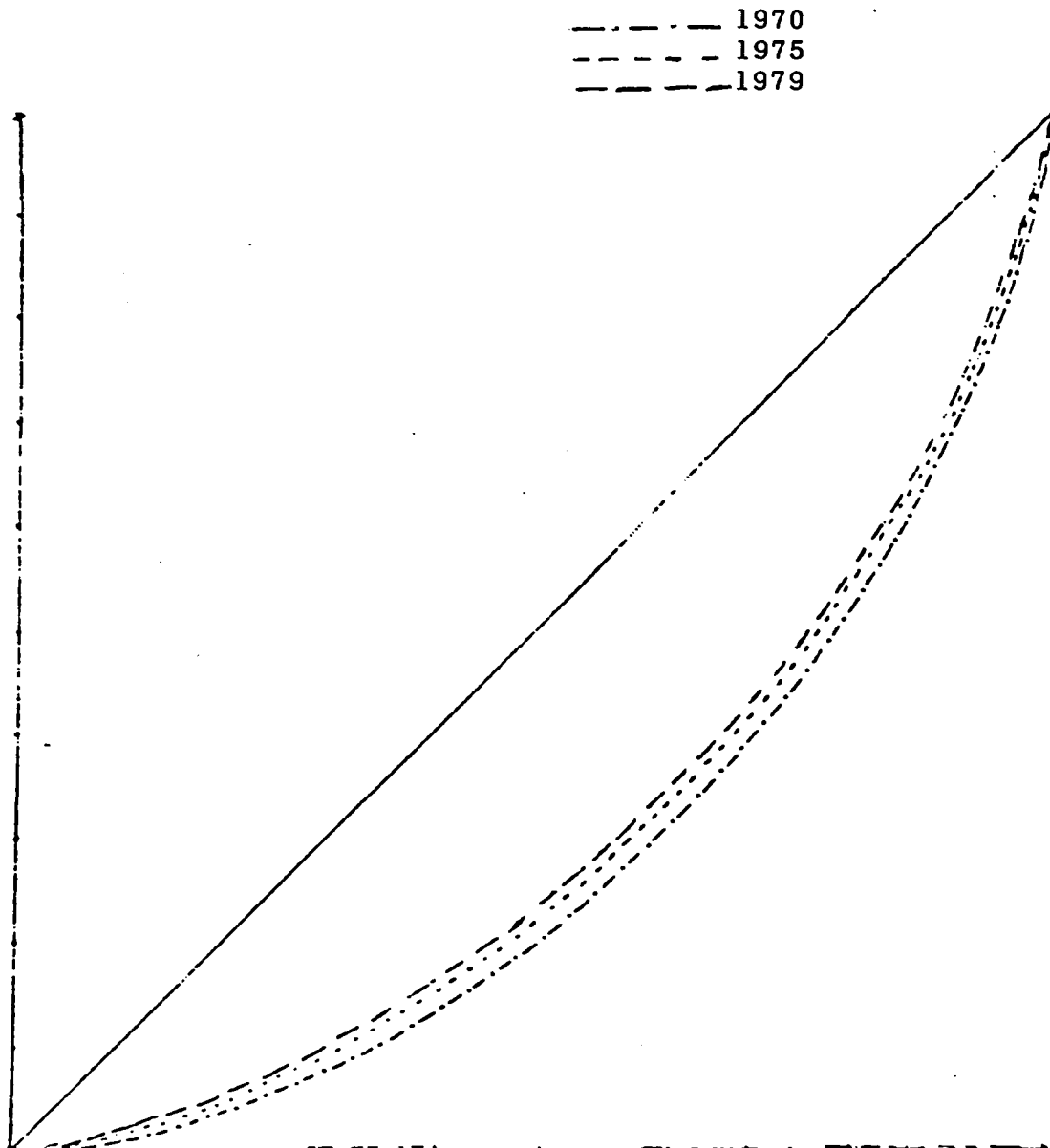
We will look at the influence of the head of household's age. The sex of the head of household will not be considered as female headed households are still relatively rare and most of these are covered under the one person and single parent households.

With regard to inequality through the links of the household with the labour market, we will first study the influence of the number of workers within the household, then that of the socio-economic group to which the head of the household belongs, and then the influence of the area and its rate of urbanisation.

3.2.1 The size of the household

One of the main factors of inequality in the household standard of living lies in the number of persons who make up the household. When looking at a household's total income it seems that households of four persons are much richer than households composed of only one person, but this is no longer the case when considering income per capita. On the contrary, on average, household standard of living decreases as the household's size increases. Had we taken an equivalent income indicator this decrease would not appear until the four person household, but large families would be the poorest.

If some of the socio-demographic changes we described earlier lead towards a decrease in the dispersion of income per capita within the total household population, such as the increased participation in the labour force of married women and the progressive disappearance of families with 4 children or more, other factors have interposed which increased the disparities in income per capita between households according to the size of the household.

Therefore the changes in income according to the size of the household between 1970 and 1979, were quite surprising.

With regard to the income declared at the tax office (income from labour, property, and pensions), we would have expected an increase in the disparities of households' total income and a decrease in the disparities of income per capita between households composed of one person and those composed of two persons, because of the greater likelihood of married women to be working. But it is not the case. On the contrary they have increased, as has the disparity between two person households and three person households.

Households of two persons whose average income per capita income was only 3% less than the income per capita of households of one person in 1970, had, on average, a gap of 10% in their standard of living in 1979.

TABLE 3.4

CHANGES IN DISPARITIES OF DECLARED INCOME
(BEFORE TRANSFERS AND TAXES) ACCORDING TO SIZE OF HOUSEHOLD

(income of household of 1 person = 100)

	Total income			Income per capita		
	1970	1975	1979	1970	1975	1979
Households of						
1 person	100	100	100	100	100	100
2 persons	195	191	180	97	96	90
3 persons	264	241	217	88	80	72.5
4 persons	272	261	228	68	65	57
5 persons	268	257	224	53	51	45

Two reasons can be given to explain this surprising data: first the reducing percentage of older retired people, and the growing percentage of young men of working age amongst households composed of only one person, as shown above, and the second, the greater proportion of old retired couples amongst the two person households.

The only social transfers which can correct the inequalities in standard of living, due to the size of household, are family benefits.

In fact, if health spending is more important to large families than to households without any children this disparity is compensated for by higher health expenditure.

If we include family benefits (calculated according to a table) in household income, we can see that the only households whose per capita income improves are those with 2 or 3 children. The gap in their standard of living compared with the one person household is reduced by 3 (from 32% to 29%) and 6 (from 47% to 41%) percentage points respectively, in 1970, and by 2 (from 43% to 41%) and 5 (from 55% to 50%) percentage points respectively in 1979.

To conclude, the effect of family benefits in reducing inequality appears to be small, and decreases between 1970 and 1979.

If we take into account tax policy with the action of the "familiar ratio", which also helps reduce inequality according to the size of household, we must calculate the inequality in per capita income after transfers and taxes, i.e. inequality in disposable per capita income. This has been done for 1979, and Table 3.5 compares inequalities in income per capita according to the size of household, and for 1) declared income 2) income after transfers but before taxes, and 3) disposable income (after transfers and taxes).

It appears that the "familiar ratio" has no longer a great influence on the reduction of equality in the standard of living between households according to their size.

TABLE 3.5

DISPARITIES BETWEEN HOUSEHOLDS OF DIFFERENT SIZES
ACCORDING TO THE KIND OF INCOME PER CAPITA TAKEN INTO ACCOUNT

(income per capita of households of 1 person = 100)

Size of Households	Declared income (from labour, prop. and pensions)	Income before taxes	Disposable income
1 person	100	100	100
2 persons	90	90	89
3 persons	72.5	73	73
4 persons	57	59	60
5 persons	45	50	51.5
6 persons	28	35	37

3.2.2 The age of the head of household

The age of the head of the household is also a major factor in causing disparities in households' standard of living. Those who are under 25 are often unmarried living alone, or young married couples, whose income is often only based on a beginner wage, or on profits from a practice still composed of a few people, or from a farm where the burden of borrowing is great.

Households whose head is between 26 and 35 years old are usually married couples with their first baby, and the presence of another wage or a profit from a non-wage activity is more frequent. Those who are between 36 and 45 years old are those with the highest disposable income, but also those who have the largest household size. After 55, the average number of persons in the household is no longer 3 but 2, the children having left. Within this generation of households, working women are less frequent, which explains the decrease in the average disposable income per household. Then, after 65, the husband has often died, and the household is often composed of an old woman receiving only a single pension.

Considering the disparities in disposable income per household, the biggest disparity is that between the young married couple aged under 25 years old and the household whose head is between 36 and 45 years old: the gap is 44%.

The disparities in disposable per capita income are less important and the ordering no longer the same as for

disposable income per household. In fact, the household whose head is between 36 and 45 years old becomes the poorest. Then, as the head gets older the children leave home gradually and the disposable income of the household keeps increasing. Eventually the standard of living of older households appears higher than the one of couples with dependent children.

TABLE 3.6

DIFFERENCES IN THE AVERAGE DISPOSABLE INCOME PER CAPITA, ACCORDING TO THE AGE OF THE HEAD OF THE HOUSEHOLD

(all households = 100)

Age of head of household	Disposable Income per household	per capita	Average number of persons in household
Aged under 25	70	93	2.09
Aged 26 to 35	107	91	3.25
Aged 36 to 45	125	88	3.91
Aged 46 to 55	117	102	3.15
Aged 56 to 65	96.5	117	2.28
Aged 66 or over	73	119	1.68
All households	100	100	

This surprising result depends partly on the indicator of inequality. If instead of taking the disposable per capita income we had taken the equivalent disposable income, the ratios would not have been the same. The youngest households would have appeared poorer than those whose head is between 36 and 45 years old which have two children, and the oldest households would not appear so much richer.

3.2.3 The number of workers within the household

In 1970, households whose only source of income was social transfers or income from property, declared on average an amount of income which was half the average income declared by households who had one of their members (generally their head) working. The difference between households with only one person working and households with two active members, was less important; the second worker contributed only about 45% extra income. Finally households with 3 workers or more earned only about 13% more than those with 2 workers. In 1979 differences in the income declared to the Tax Office according to the number of workers in the

household had decreased, at least between households with no workers or just one or two. We can explain the decrease in the gap between the income of inactive households with no worker and the income of households with only one worker, by a greater annual rate of growth in pensions than wages. In contrast we expected that the reduction of disparities between wages of men and women during these years, would lead to an increase in the income of households with two workers, which would be faster than the increase in the income of one worker households, so that the gap between the two average incomes would also increase. But, on the contrary, the gap was not 43% but 37% in 1979. Again structural effects combined with age factor interposed: on average two worker households are younger than the one worker household.

TABLE 3.7

AVERAGE DECLARED INCOME PER HOUSEHOLD ACCORDING TO THE
NUMBER OF WORKERS WITHIN THE HOUSEHOLD

(income declared by no-worker household = 100)

	1970	1979
No worker households	100	100
One worker households	200	158
Two worker households	287	219
Three or more worker households	325	253
All households	208	163

However, the average income declared by households with three or more workers grew more rapidly than that of two worker households, and in 1979 the gap between the two was 17% rather than the 13% it was in 1970, on average.

Disparities between per capita disposable income are not so important, as the average number of persons per household increases as the number of workers does, as we see in Table 3.8.

We should take into account the influence of unemployment on household income. However, unfortunately we do not have any indication of the income of households where one or two workers are unemployed.

We only know through the Employment Survey, which is published each year, which group of households has the greatest probability of having one or two workers unemployed.

TABLE 3.8

DISPOSABLE INCOME PER HOUSEHOLD AND PER CAPITA
ACCORDING TO THE NUMBER OF WORKERS WITHIN THE HOUSEHOLD

	DISPOSABLE INCOME		Average number of persons by household
	per household	per capita	
No worker households	53	105	1.6
One worker households	98	92.5	2.9
Two worker households	132	109	3.3
Three worker households	156	92	4.65
All households	100	100	

For instance in 1963 we know that the rate of unemployment was 9.3% among manual workers and 8.2% among clerical staff and shop assistants, but only 3.3% among salaried staff and 1.9% among executives. Clerical staff and shop assistants are generally women who are married to salaried staff as well as to manual workers, but the other socio-economic groups are mostly men at the head of the corresponding households. Thus we can say that the probability of unemployment is greater among manual households than among executives or salaried staff which increases inequalities.

We also know that in 1986 the greatest probability of having one or two persons unemployed was found among married couples with three children or more; especially among 40 year olds or over, whose children are grown-up. More than 20% of them had at least one person unemployed and 5% two persons unemployed.

3.2.4 The socio-economic group of the head of household

In a household the main source of income is generally from the labour market activity of its members. In a married couple where husband and wife both work, the greatest income from activity is very often the husband's who is, moreover, considered to be the head of the household.

In France, income from work, particularly for wage earners, is tightly linked to the socio-economic group to which one belongs, and not so much to ability and professional experience.

That is why the socio-economic group to which the head of the household belongs is a strong determining factor in the household's income, and is as important as the number of workers within the household.

If we consider the income declared to the Tax Office in 1979 it appears, despite a real decrease in the disparities since 1970, that the average income of a salaried executive was three times greater than that of a non-working household.

If we take into account the family benefits received and the taxes paid, as well as the number of persons within the household, the differences are not so important. The non-working households have only 2.9 persons on average, against 2.75, which is the mean for the whole population of households. This explains why their per capita disposable income is slightly higher than the average. In contrast, in manual worker households the average number of persons is 3.4, higher than that of the salaried executive's (3.12). Nevertheless, the action of the tax policies explains that differences in per capita disposable income between these two socio-professional groups are less important than the differences in the income declared to the Tax Office.

TABLE 3.9

DIRECT TAXES ON INCOME BEFORE TAXES RATIO

	1970	1979	1984
Farmers	5.9	7.2	9.1
Self-employed	9.9	11.3	13.6
Executives	10.4	11.6	14.2
Salaried staff, professional and technical	5.8	7.3	9.3
Clerical and shop assistants	4.6	6.0	7.1
Manual workers	3.1	4.2	4.9
All working households	6.4	7.7	9.3

As far as non-wage earner households are concerned (farmers and self-employed), the income they declare to the Tax Office cannot be considered reliable because of fiscal fraud. If we take the disposable income definition from the national accounts which corrects the sub-declared incomes and recovers all kinds of social transfers, Table 3.11 confirms the conclusions found in Table 3.10 concerning the decrease in disparities since 1970, except for farmers whose income is low in relation to the average. Nevertheless, in 1979 farmers appear to have had the same per capita disposable income as clerical workers. Incidentally, the self-employed households, had the highest per capita disposable income from the beginning of the crisis (1975).

TABLE 3.10

DISPARITIES IN INCOME DECLARED ACCORDING TO THE
SOCIO-PROFESSIONAL GROUP OF THE HOUSEHOLD, AND
DISPARITIES IN PER CAPITA DISPOSABLE INCOME

	Income declared		per capita disposable income	average number of persons in household
	1970	1979		
Farmers	51	69	55	3.7
Self employed	172	171	131	3.2
Executives	260	214	176	3.1
Salaried staff Professional and technical workers	149	129	118	3.0
Clerical and shop assistants	102	94	100	2.7
Manual workers	87	84	75	3.4
Inactive households	60	71	105	1.5
All households	100	100	100	2.8

Since 1979 the disparities have kept decreasing between the different salaried socio-professional groups. In contrast, the gap in disposable income between inactive and active households keeps growing.

Finally farmers are the socio-economic group most affected by the crisis.

Another factor in income disparity is the educational attainment of employees and professional workers. The Income Survey does not include data on the educational level of households. However, through the Employment Survey we have data on the median income of the heads of households according to their educational attainment. This data shows that in 1986 households' heads who graduated from University, and especially those who graduated from Colleges of University level, specialising in professional training (2.6% of the population), have a median income three times greater than that of households' heads who did not get a degree after leaving school (16.7% of the population). This is not surprising as the former are executives and the latter manual workers.

TABLE 3.11

CHANGES IN DISPARITIES IN DISPOSABLE INCOME PER CAPITA*
ACCORDING TO THE SOCIO-PROFESSIONAL GROUP OF THE HOUSEHOLD

	1970	1975	1979	1984	Distribution of households in 1982
Farmers	98	89	89	83	4.2%
Self-employed	185	174	174	165	6.9%
Executives	168	166	152	140	6.4%
Salaried staff professional and technical	109	107	100	95	9.8%
Clerical and shop assistants	92	93	89	90	11.4%
Manual workers	68	69	69	70	28.4%
Inactive households	93	103	109	117	32.8%
All households	100	100	100	100	100%

* All social transfers included, and after correction
of fraud, as it is calculated by the national accounts.

TABLE 3.12

MEDIAN INCOME ACCORDING TO THE EDUCATIONAL ATTAINMENT
OF THE HOUSEHOLD'S HEAD

Primary school	Unknown or no degree	4,890 francs each month
	C.E.P	5,541 francs each month
High School	B.E.P.C (B.E)	6,173 francs each month
	C.A.P + B.E	5,586 francs each month
College	Baccalaureate	7,069 francs each month
	Bac.+ technical degree	7,444 francs each month
	D.U.T or DEUG	7,848 francs each month
University	Diploma 2nd or 3rd cycle universitarie	9,595 francs each month
	Diploma d'une grande ecole	14,758 francs each month

However, despite the fact that Education in France is a
public utility to which everyone has access, whatever standard
of living he has, Table 3.13 shows that 47% of working men whose
father is, or was, an executive or a professional are executives
or salaried staff because 51% have the baccalaureate degree or a
higher degree.   In contrast 45.5% of working men whose father
is, or was, a manual worker have left school without any degree
and only 5.3% have got the baccalaureate.   Because of this there
appears to be an inter-generational reproduction of social
inequality.

TABLE 3.13

EDUCATIONAL ATTAINMENT ACCORDING TO THE
SOCIO-ECONOMIC GROUP OF THE FATHER

	Percentage of working men	
Socio-economic group of Father	without any degree	having the baccalaureat
Farmers	54.9	6.3
Self-employed	30.0	18.2
Executive or Professional	9.3	51.2
Salaried staff	19.0	25.0
Clerical or shop assistant	31.3	13.5
Manual worker	45.5	5.3

3.2.5 The area and rate of urbanisation

The disparities in income per household between the 21
administrative areas of the French territory seem important.
For instance, the average income in Limousin or in Languedoc-
Roussillon is lower by 25 to 30% than the average income of
households living in Alsace or in the Rhone-Alpes area.

Nevertheless, area is not in itself, a factor in income
disparity.   For instance, if the lowest average income for
executives is found in Basse-Normandie and in Picardie, for
the salaried staff it is found in Poitou-Charente and in
Languedoc-Roussillon.   And finally, for clerical workers, it
is found in Bretagne and in Limousin.

There is only one characteristic area from this point of
view;   it is the Region Parisienne, often called Ile de
France, where you can find the highest average income for
every socio-professional category.

There are two reasons which explain this: firstly it is
where the highest rate of women's work is found, and
secondly, though the two factors are linked, it has the
highest rate of urbanisation.

Table 3.14 shows the difference in the average income of households between the Ile de France area and the others, in 1979. The difference grows with the age of the household's head, and decreases with the number of workers within the household. Farmers are with the inactive households (who are older than the others) the only socio-professional group for which the gap exceeds 40%.

These disparities have decreased considerably in the past few years. In 1970 the ratio between the average income per household in the Ile de France and the average income of the whole population of households was 1.40 as opposed to only 1.25 in 1979.

This can be explained by a decrease in the disparities in household income according to the size of the municipality they live in.

Nevertheless, the disparities between the income of households living in Paris and the income of households living in the country, are still significant, as is shown in Table 3.15.

TABLE 3.14

RATIO BETWEEN THE INCOME PER CAPITA OF HOUSEHOLDS LIVING IN ILE DE FRANCE, AND THE AVERAGE INCOME OF HOUSEHOLDS, ACCORDING TO VARIOUS CRITERIONS IN 1979

All households	**1.38**
Households whose head is a farmer	2.36 **
Households whose head is self-employed	1.36
Households whose head is an executive	1.13
Households whose head is salaried staff	1.22
Households whose head is a clerical worker	1.21
Households whose head is a manual worker	1.21
Households whose head is inactive	1.47 **
One person households	1.32
Two person households	1.34
Three person households	1.27
Four person households	1.28
Five or more person households	1.36
No worker households	1.47 **
One worker households	1.42
Two worker households	1.30
Three or more worker households	1.30
Households whose head is 25 years old or less	1.16
Households whose head is 26 to 35 years	1.29
Households whose head is 36 to 45 years	1.41
Households whose head is 46 to 55 years	1.44 **
Households whose head is 56 to 65 years	1.51 **
Households whose head is 66 or older	1.41

TABLE 3.15

CHANGES IN DISPARITIES IN AVERAGE INCOME PER HOUSEHOLD
ACCORDING TO THE SIZE OF THE MUNICIPALITY THEY LIVE IN

	1970	1979
Country municipality	100	100
Towns of less than 100,000 inhabitants	148	114
Towns of more than 100,000 inhabitants	165	118
Paris and Greater Paris	217	150

4. THE POPULATION AFFECTED BY POVERTY

We have seen the influence of different factors on the
inequality of household income. Nevertheless all of them
cannot be credited with the same importance.

For example, even if having a large family is a factor
of inequality between households, the average per capita
income of an executive married couple with three children is
greater than the average income of a manual household
composed of one person only.

In the same way, we saw that in 1979, the average income
of households living in Paris was 40% greater than the
average income of households living somewhere else in the
country, but the average income of a manual household living
in Paris was lower than the average income of a salaried
executive household living in a small town.

In fact, for the great majority of the households,
earnings from work are the main source of income. The socio-
professional group to which the household belongs appears,
therefore, to be the main factor of inequality.

In Tables 4.1 to 4.3 for any population of households
declaring one, two, three or more different sources of
income, and within each of these populations for any family
structure you find the same order; the average declared
income of executives is greater than that of salaried staff,
which is itself greater than the average income of clerical
households, these all having a higher average income than
that of manual households.

However, not every manual household or inactive
household has the same standard of living. The standard of
living of the former depends on the number of incomes he
receives from the activity of its members, from a pension, or
from property. In 1979, 55% of manual households declared
only one income (the wage of the head of the household), and
only 8% of them declared three incomes or more. In contrast
30% of executive households declared only one income and 26%,
three incomes or more.

TABLES 4.1 TO 4.3

AVERAGE INCOME ACCORDING TO DIFFERENT SOCIO-ECONOMIC GROUPS AND DIFFERENT STANDARDS OF HOUSEHOLDS

4.1: FOR HOUSEHOLDS DECLARING ONLY ONE SINGLE SOURCE OF INCOME

	Single parent families	One person households	Married couples where husband is the only worker
Farmers	n.s	13,940	25,070
Self-employed	60,870	46,980	77,680
Executives	n.s	69,980	106,720
Salaried staff	55,860	48,740	69,620
Clerical workers	36,340	37,000	50,340
Manual workers	28,800	31,060	40,670
Inactive households	14,100	21,970	n.s

4.2: FOR HOUSEHOLDS DECLARING TWO SOURCES OF INCOME

			Married Couples	
	Single parent families	One person household	Where husband is the only worker	With husband and wife both working
Farmers	57,170	43,470	46,880	43,680
Self-employed	98,920	102,520	123,860	97,670
Executives	n.s	108,510	167,200	131,200
Salaried staff	61,910	68,260	93,560	92,780
Clerical workers	47,160	48,340	66,590	79,680
Manual workers	40,780	37,290	59,760	68,640

4.3: FOR HOUSEHOLDS DECLARING THREE SOURCES OF INCOME

	Married Couples	
	where husband is the only worker	with husband and wife both working
Farmers	67,350	67,100
Self-employed	145,430	132,840
Executives	182,910	170,220
Salaried staff	107,140	116,580
Clerical workers	88,210	90,990
Manual workers	76,680	81,170

TABLE 4.4

DISTRIBUTION OF HOUSEHOLDS ACCORDING TO THE NUMBER
OF INCOMES THEY DECLARE AND TO THEIR SOCIO-PROFESSIONAL
GROUP IN 1979

	1 income only	2 incomes	3 incomes or more
Farmers	52%	36%	12%
Independents	36%	38%	26%
Executives	30%	44%	26%
Salaried staff	43%	42%	15%
Clerical workers	54%	34%	12%
Manual workers	55%	37%	8%
Inactives	50%	35%	15%

The average income of manual households declaring only one income is only 69% of the average income of manual households. In contrast executive households who declare two incomes (which is more frequently the case) have an average income which is greater (by 2%) than the average income for all executives. The inequality is, therefore, greater than it would appear from the averages calculated for each socio-professional group.

Finally, within manual households who declare only one income, 70% are married couples with an inactive wife, 25% are composed of one-person households, and 5% of single-parent families.

The average income of married couples is slightly higher. But 60% of them have at least two dependent children. So their average per capita income is 40% below the average per capita income of manual workers, and represents only 42% of the average per capita income of the whole population.

In other respects the per capita income also depends on the nature of the various incomes the household receives. Comparing Table 4.1 with Table 4.2, we see that, when the second source of income is the wife's wage the income of the married couple is increased:

- by 23% for executive households (131,200F/106,720F)
- by 33% for salaried staff
- by 58% for clerical workers, and
- by 68% for manual workers.

As a matter of fact, as we have already seen, most working women are clerical workers or salaried staff. The ones who are clerical workers earn wages which are close to those earned by manual and clerical men. In contrast, women who are salaried staff, receive wages which are 33% below the

average wage of men salaried staff, and 6.5% below that of executive men. Therefore, working women reduce the disparities in income of households according to the socio-economic groups to which they belong.

If we compare the last two columns in Table 4.2 we see that amongst married couples whose second source of income is not derived from the wife's activity, the disparities in income according to the socio-economic group to which the household belongs are increased, compared to those observed for households declaring only one single source of income. This comes from differences in the nature of the second source of income. This second source is usually an investment income in executive or self-employed households, and a pension in manual and clerical households. On average this pension, received by one of the members of the household, is low, especially compared with the wage the wife would earn working full-time. Executive married couples, where the wife does not work, earn a higher wage (because the head is older, or because the family may move more easily from one town to another, or even to another country) and, like self-employed households, usually have a second source of income - high investment earnings.

Factors of poverty can also be seen if we rank households according to their per capita income and look at the distribution of persons among the different quartiles or deciles, according to certain characteristics of their households, or according to their individual characteristics.

4.1 Large families

Large families are concentrated more in the first two quartiles demonstrating the greater proportion of persons per household.

4.2 Farmers' and manual workers' households

If we take the average distribution of persons as a reference, we can also see in Table 4.5 that persons living in farmer households have the greatest probability (73%), of belonging to a household whose per capita income is low (below the first quartile). This result can be explained partly by the understatement of farmers' income, and partly by a greater number of persons per household. But it is also evident that the dispersion of income is very large among farmers and that a great proportion of them do receive a low income while others are quite rich.

The probability of belonging to the poorest households is also high for manual workers (53%). It decreases as we go up the socio-economic scale and is only 5.4% for persons living in an executive household.

In contrast people living in a professional self-employed household like that of a lawyer or a doctor, have more than a 40% chance of belonging to a household whose per capita income is among the highest.

TABLE 4.5

DISTRIBUTION OF PERSONS ACCORDING TO THE SOCIO-ECONOMIC GROUP OF THEIR HOUSEHOLD

Income per capita of the household belonging to

Type of Household persons belong to	The first quartile	The second quartile	The third quartile	The upper decile
Farmer	73.0	14.7	7.2	1.7
Self-employed	29.4	22.6	20.4	14.4
Professional	9.7	13.0	20.4	41.0
Executive	5.4	12.0	27.3	27.7
Salaried staff	18.7	25.1	30.8	8.6
Clerical	30.5	26.2	24.7	4.6
Qualified manual	48.8	25.0	18.9	1.2
Non qual. manual	55.6	23.4	15.3	0.8
All persons	35.5	24.1	22.1	7.0
All households	25.0	25.0	25.0	10.0

4.3 Single-parent families and married couples where wife does not work

Another type of household for which the probability of having one of the lowest per capita incomes is high is the single-parent family whose head is a woman. For a person living in such a household the probability of a low income is 61.4%. It is lower than 31% for persons belonging to a married couple household where husband and wife both work. But the probability of belonging to the 25% poorest households reaches nearly 50% for couples where the wife is not working.

4.4 The other factors which are much less important or linked with the above

The influence of age, or the life cycle effect, does not appear as important when compared with the two factors we have already observed. However, the probability of belonging to the poorest, from the standard of living point of view, reaches 46.7% for the persons living in a household whose head is between 36 and 45 years old and decreases as the age increases.

TABLE 4.6

DISTRIBUTION OF PERSONS ACCORDING TO THE
STANDARD OF HOUSEHOLD THEY BELONG TO

Income per capita of the household
belonging to

	The first quartile	The second quartile	The third quartile	The upper decile
Persons belonging to a household whose head is				
- a wife	25.1	28.0	23.1	10.3
with children	61.4	23.6	11.3	1.2
- a man	36.8	23.6	22.0	6.6
whose wife is				
. salaried staff	7.1	13.9	36.6	15.5
. clerical	13.6	29.6	34.8	5.8
. manual	30.8	35.1	24.2	1.4
. non-working	49.8	21.6	15.9	5.6
- an inactive person	25.6	29.6	26.0	7.1
All persons	35.5	24.1	22.1	7.0

TABLE 4.7

DISTRIBUTION OF PERSONS ACCORDING TO THE AGE OF
HEAD OF HOUSEHOLD

Income per capita of the household
belonging to

	The first quartile	The second quartile	The third quartile	The upper decile
Persons belonging to a household whose head is				
aged under 25	33.0	23.3	28.3	1.5
aged 26 to 35	39.9	25.1	21.5	4.0
aged 36 to 45	46.7	21.4	18.4	4.6
aged 46 to 55	36.1	21.4	20.6	9.3
aged 56 to 65	26.9	21.7	24.7	12.4
aged 65 and over	17.5	33.1	27.4	9.1
All persons	35.5	24.1	22.1	7.0

When a woman works the probability of her belonging to one of the poorest households is low (less than 30%). But when she is between 20 and 59 years old and not working, the probability is high (46.2%).

In contrast a working man often still has a wife who does not work and dependent children. If he is a manual worker the probability of him belonging to one of the poorest households is 38.2%.

TABLE 4.8

DISTRIBUTION OF PERSONS ACCORDING TO THEIR SEX
AND THEIR ACTIVITY

Income per capita of the household
belonging to

	The first quartile	The second quartile	The third quartile	The upper decile
Inactive persons over 60 years old	17.7	32.8	28.0	8.5
Inactive persons aged 20-59	46.2	21.4	17.0	7.1
All women working	16.7	23.3	29.6	11.1
Executive female	4.7	4.7	19.5	44.0
Salaried female	6.9	13.1	30.1	20.1
Clerical female	12.4	25.1	33.3	8.7
Manual female	27.8	31.7	26.6	2.7
All men working	28.5	23.0	24.4	8.7
Executive male	4.5	9.4	23.3	35.4
Salaried male	13.2	21.4	31.9	12.3
Clerical male	21.3	24.3	29.4	5.8
Manual male	38.3	27.1	23.2	1.8
All persons	35.5	24.1	22.1	7.0

Finally, if we take per capita income as the standard of living indicator, neither inactive households nor retired old people appear as the poorest. People living in an inactive household have only 25.6% probability of belonging to a household whose standard of living is among the lowest. (see Table 4.6)

Of the retired and inactive persons over 60 years old, only 17.7% of them belong to a household whose per capita income is among the lowest. (Table 4.8)

5.   CONCLUSION

The increase in the participation of women in the labour market, important amongst married women from 20 to 50 years old, cannot only be imputed to a reduction of the earnings of the household due to the great extension of unemployment since 1973.

As a matter of fact, the increase in the female rate of activity is as important amongst the richest households as it is amongst the poorest. However, as we have seen above, this increase, together with the relative decrease in the number of young people, has prevented an increase in the dependency ratio since 1973, and partly contributed to the reduction in the dispersion of income amongst households.

The earnings received from the head of the household's work are a determining factor in disparities in households, even if the wife's wages contribute to a reduction of them.

Concerning disparities in the per capita income of households, the main source of dispersion remains the number of persons the household is composed of. The effect of family benefits in reducing inequality appears to be small, but it decreased between 1970 and 1979 giving these disparities the opportunity to increase.

However, the number of large families has decreased since the sixties, even amongst married couples where the wife does not work; which partly contributes to reducing the dispersion of per capita income.

APPENDIX

In this chapter the income considered is the income of the household. A household is composed of every person living together in the same house, or the same apartment, and their different earnings, whether they are related or not, are considered together.

The main source of data concerning household incomes in France is the Income Survey, a survey of a representative sample of 40,000 tax declarations from those that each head of household, whether he is taxable or not (even if he did not earn during the whole year), must send each year to the Tax Authorities (Direction Generale des Impots). These declarations concern the cash incomes subject to the income tax that each member of the household received (earnings from employment, self-employment, investment income and some transfer payments).

Its periodicity fluctuates and the sampling, analysing and publishing delays are important. The last survey published concerns the incomes received in 1979; the previous surveys concern the incomes received in 1975, 1970, and 1965.

In the 1979 survey one can find every "taxable" revenue declared by the household. Each one of the labour revenues is taxable. But this is not the case for capital or investment revenue. Some of them are not taxable at all, as for example, the revenues issuing from State loans, from housing-savings and from savings banks. Other capital revenues are subjected to a contract tax which is deducted as it arises and, due to this, are not on the household's tax declaration. Finally, only some of the social transfers are taxable and must be on the household's tax declaration. This is the case for pensions (but not for the minimum old-age allowance), and benefits paid to the unemployed by ASSEDIC, and, since 1979, for daily transfer payments for illness. However, knowing the composition of the household and the incomes declared, it is possible to calculate the family benefits received (or the minimum old age allowance) and the taxes paid so that we can know the disposable per capita income.

If one compares the data issued from the Income Survey and those concerning the "Gross Disposable Income of Households" published in the National Accounts, the former present an amount which is below that of the latter by more than a third.

This deviation can be partly explained (one third of it) by the understatement of some of the incomes received by the tax-payers (especially self-employment revenues and investment incomes). However, the remaining two-thirds of it lie in differences in the definition of income.

As a matter of fact, the income definition by the National Accounts is larger, due to some fictitious earnings as the imputed income for owner-occupation included in the calculation of the household's income. Also included is the production of the family garden (broadly estimated by the national accountants) and all social transfers concerning health, transfer payments, as well as incomes in kind, like free medical aid, and all hospital care ... Due to this old people, as well as large families with young children to care for appear richer.

In other respects the "gross" disposable income includes capital consumption which should not be taken into account to compare self-employed household's income with employee headed households. Finally, no sharing out between the different households is done with this kind of revenue so that we can only have average incomes for each socio-professional group of households.

Other data on household income exists in France, but does not have the characteristics we need to study income distribution among households.

Tax data has a double advantage, it is exhaustive and is published each year. Therefore, the data is recent and reliable. However, the concepts they use as "income groups" and "tax units" are well adjusted for the study of taxes perceived by the State according to each kind of revenue, but not for the study of total income distribution and inequalities among households.

The Family Benefits Offices collect data on the incomes of their recipient population. But this population is the only one for whom data is collected.

Finally, calculations are made on various family standards, according to the composition of the family and the socio-professional group to which its members belong. The average wage of the group and the transfer payments they should receive according to the transfer tables, and then subtracting from this sum the tax they should pay according to the tax-table. These calculations remain theoretical and their only concern is these peculiar family standards.

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THE DISTRIBUTION OF HOUSEHOLD INCOME IN GERMANY

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1. INTRODUCTION

During the last decade, there has been renewed interest in the subject of the distribution of income. After a period of high and continuous expansion, growth faltered, unemployment increased rapidly, and real net incomes stagnated all over the world. Many industrialized countries experienced stagflation and turned into `Zero-Sum Societies' (Thurow) for nearly a decade. Despite a considerable extension of social security schemes, the economic situation of the unemployed and problems of poverty have become topics of growing concern again.

The subject-matter of this paper is the household distribution of income in Germany since the early seventies. The main objectives of this research are:

- show how income distribution has behaved in the course of the economic and social developments of the last decade;

- to identify the major factors associated with income inequality and its change;

- to assess the redistributive impact of the public sector.

This paper starts with a short description of the available data. After surveying the long-run development of the factor and household distribution of income and the main macro-economic, social and demographic factors, a more detailed account of the household distribution of income in the years 1973, 1978 and 1985 will be given. We then try to identify the main characteristics of income inequality in Germany, and study the relationship between income distribution and the economic and social developments of the last decade.

2. SOURCES OF DATA, INCOME UNIT, AND INCOME CONCEPT

There are two kinds of data sources on income distribution - official records, i.e. tax statistics, employment data or the records of the social security system etc. and survey results, i.e. the income-expenditure survey and the mikrozensus. As a rule, data from different sources is of limited compatibility, because data is rarely collected specifically for the purpose of measuring the size-distribution of income.

Both data sources have their inherent shortcomings as a basis for measuring income inequality (SAWYER 1976). Unadjusted official records normally cover only part of the population and include only some sources of income, e.g. income tax statistics omit those below the tax thresholds and tax-free transfer payments; survey-based information is, besides the usual sampling errors, subject to varied response rates and misreporting of income which introduces an element of bias: it underestimates the degree of inequality because there are indications that income going primarily to higher income classes (e.g. property and entrepreneurial) is more under-reported than income from other sources; and the definitions of the income units of two sources are rarely in line with each other. (Information on the available data on income distribution in Germany is given in the Appendix.)

There are many reasons for incomparability in the sources of income distribution. Therefore, a number of adjustments have to be made to make the various available information consistent and suitable for study. The German Institute of Economic Research (DIW) made the necessary adjustments for Germany and constructed a Social Accounting Matrix which combines the information on distribution from various sources with the corresponding data of the National Accounts (GOSEKE & BEDAU 1974).

The data prepared by the DIW together with the National Accounts, the Income Expenditure Survey, the Mikrozensus, and the Earnings Statistics are the main sources on income distribution used in this paper (cp. Appendix).

This study focuses on the welfare position of the individual household. It looks mainly at the distribution of disposable income, but we are also interested in the sources of income and the redistributive activities of the welfare system. The income concepts employed are, therefore:

original or primary income, i.e. gross market income of employees (wages and salaries), and entrepreneurial or property income (profits, rents, dividends and interest payments);

total income, i.e. gross market income plus transfer payments (pensions, social security payments, other transfer expenditures);

disposable income, i.e. total income less direct taxes and social security contributions.

The corresponding income receiving unit is the private household which is either a one-person or a multi-person household. Persons living in institutions like hospitals, monasteries or homes fore the aged are excluded.

3.   INCOME INEQUALITY TRENDS

   This section presents some data on the overall long-run development of inequality on the German economy, and on the main structural and macro-economic changes affecting the distribution of income.

3.1   Long-run changes in the size distribution of household income

   The starting point in this analysis is shown in Chart 1 which plots the quintile shares of household distribution of disposable income and the development of the Gini coefficient over the period 1950 to 1985.

   The overall distribution of household income suggests some movement towards equality in that the bottom quintiles have tended to gain some share of total disposable income, whilst the top quintile tended to lose, until the early '80s. Since then the top quintile has improved its position, whilst the first and second quintiles have remained in the same positions.

   The general picture which emerges is that in the '50s and early '60s the dispersion of income narrowed somewhat but, widened again in the second half of the '60s. From 1970, when the dispersion in income was nearly as high as in 1950, to the early '80s, the development of quintile shares and Gini coefficients indicates a greater shift towards equality.

   Any assessment of these changes in the overall distribution of income has to consider macro-economic and structural factors, such as demographic changes, changes in the household size (Table A.1; Appendix), and changes in the socio-economic or sexual structure of the labour force. In the next section we look at the functional distribution and some macro-economic figures, before going into structural considerations in the following chapter.

3.2   Macro-economic development and changes in factor shares

   Changes in factor shares have, for a long time, been seen as an important factor in altering the size distribution among persons and households (NOLAN 1987). The idea being that a large proportion of profits and self-employment income goes to the top deciles, thus cyclical fluctuations in profits would show up in pro-cyclical changes in the top deciles.

   The long-run trend in the distribution of factor income is mainly determined by the structure of employment;   i.e. the increasing share of employees in the labour force (Table

Chart 1: Income inequality trends: the dis┤
disposible household income in Geri

Source: German Institute of Economic Resea

5.Quintile

4.Quintile

3.Quintile

2.Quintile

1.Quintile

Share
in
income
%
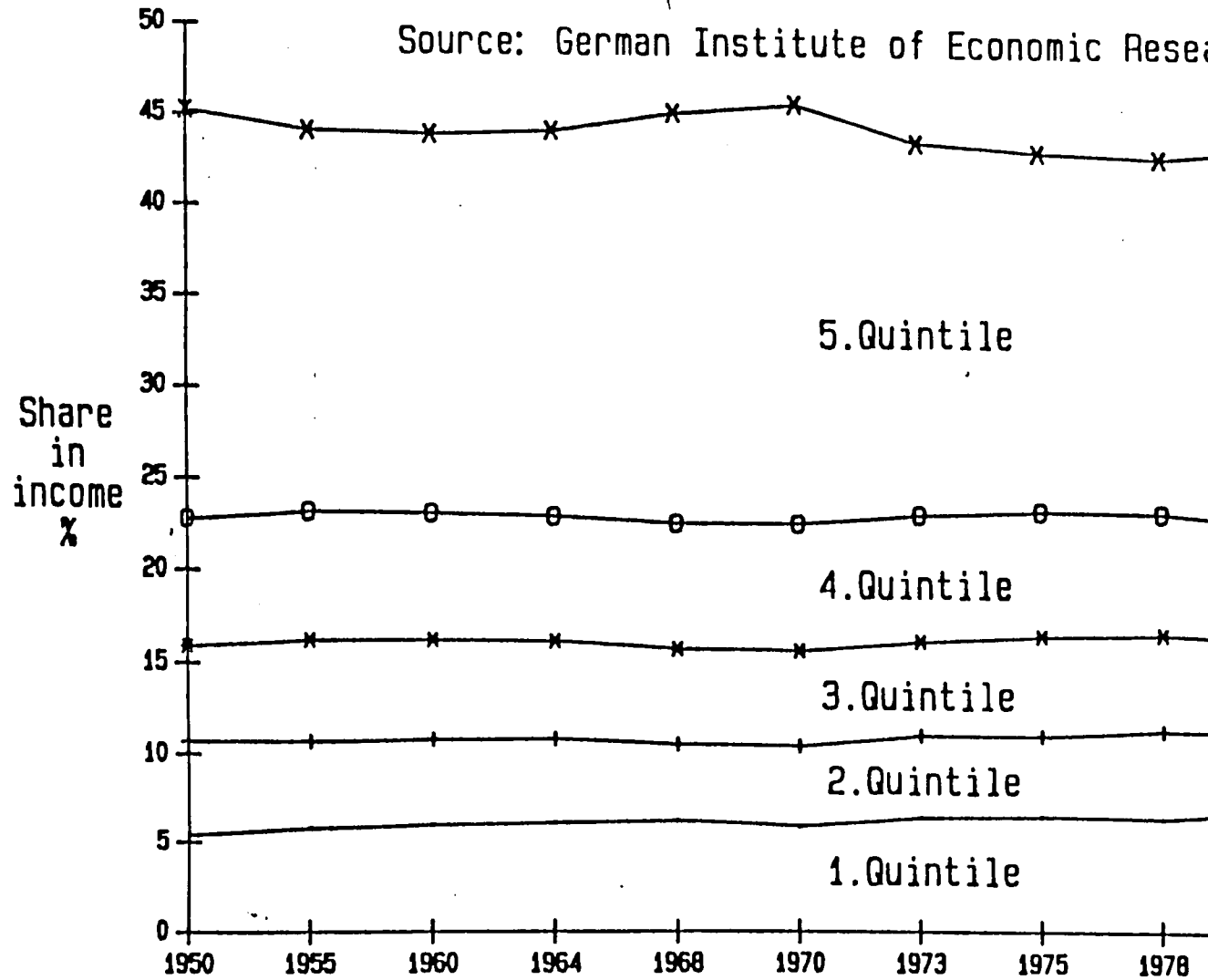
	1950	1955	1960	1964	1968	1970	1973	1975	1978
Gini	.396	.384	.380	.380	.387	.392	.370	.366	.364

Chart 2: Wage share in national income in Germany 1950-1986

in %

*) employer-employee ratio constant (base 1960)
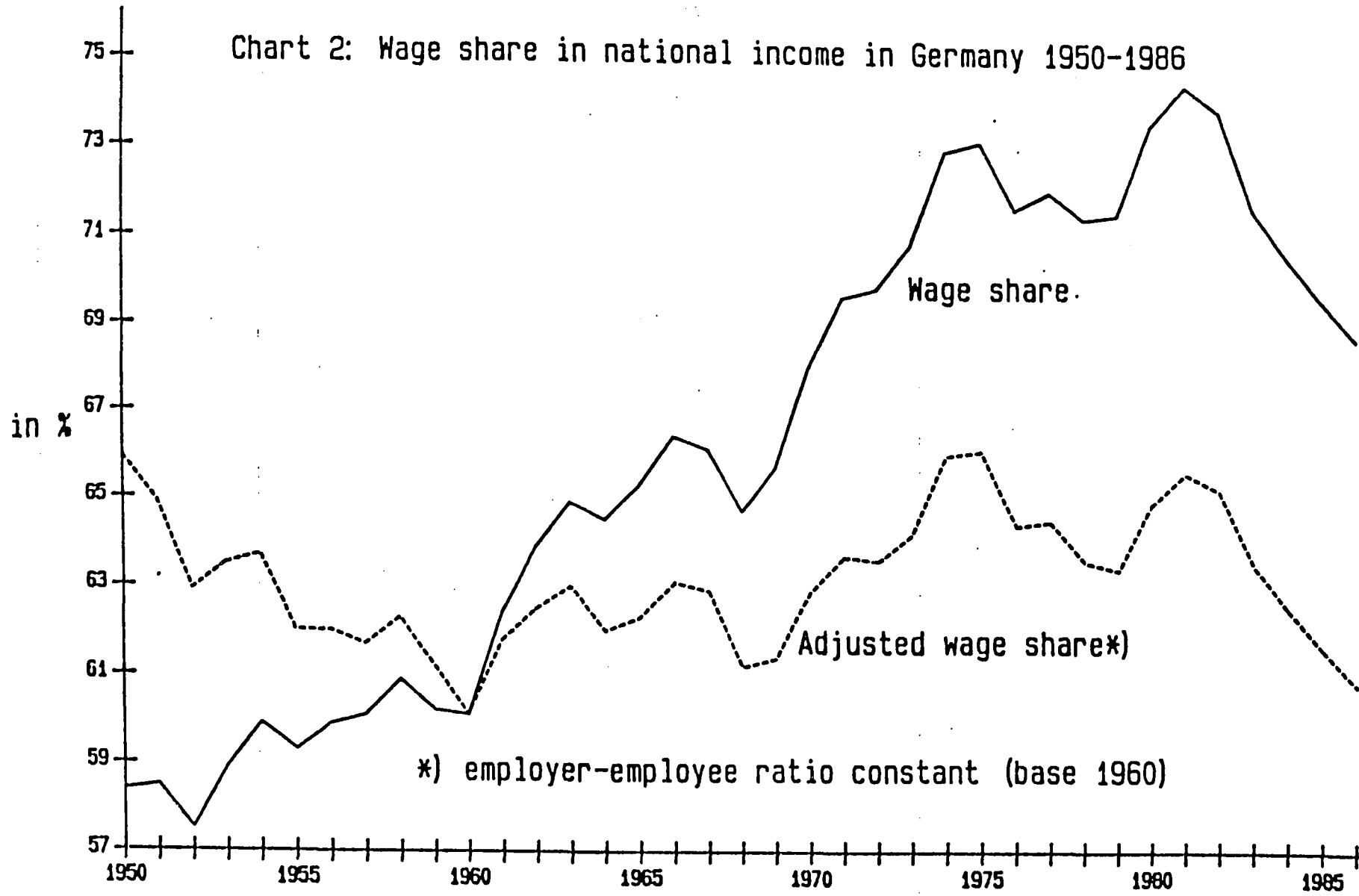
chart 3: Unemployment rate in Germany

TABLE 3.1

Working population, employment, and unemployment in the long run

| | | | | | | | Participation Rates | | Unemployment Rate | |
	Population	Total Employment	Self Employed	Employees	Unemployed	Total Labour Force	Working Population	Employees in % of Total Employment	Unemployment rate Unemployed in % of Non Self employed Labor Force	Total
1950	46,894	19,997	6,323	13,674	1,580	46.0	42.6	68.4	10.4	7.3
1960	55,425	26,247	5,990	20,257	271	47.8	47.4	77.2	1.2	1.0
1970	60,652	26,668	4,422	22,246	149	44.2	44.0	83.4	0.7	0.6
1980	61,566	26,302	3,316	22,986	889	44.2	42.7	87.4	3.7	3.3
1973	61,976	26,922	4,358	22,564	273	43.9	43.4	83.8	1.2	1.0
1978	61,326	25,699	3,435	22,264	993	43.5	41.9	86.6	4.3	3.7
1985	61,025	25,534	3,271	22,515	2,304	45.6	41.8	88.2	9.3	8.3

70

Source : Statistisches Bundesamt Wiesbaden, Lützel : Volkswirtschaftliche Gesamtrechnungen 1950-1984, 1984, 1986 ; Wirtschaft und Statistik 3/1987, 6/1985.

TABLE 3.2

THE LONG-RUN DEVELOPMENT OF FACTOR SHARES IN NATIONAL INCOME

	National income	Compen- sation of employees	Property and entre- preneurial income	Wage Share (Wage-income ratio) actual	adjusted by employer- employee ratio
Year		in bill. DM			in %
1950	78,5	45,7	32,8	58.2	65.7
1960	240,1	144,4	95,7	60.1	60.1
1970	530,4	360,6	169,7	68.0	62.9
1973	720,9	509,5	211,4	70.7	64.1
1978	1,009,3	720,9	288,4	71.4	63.6
1980	1,149,4	842,1	307,3	73.3	64.8
1984	1,351,6	953,4	398,2	70.5	62.5
1985	1,423,3	989,4	433,9	69.5	61.5

average rate of growth per year in %

1950/60	11.2	11.5	10.8	0.3	-0.9
1960/70	8.2	9.6	5.9	1.2	0.5
1970/80	8.0	8.8	6.1	0.7	0.5
1973/78	7.0	7.2	6.4	0.2	-0.2
1978/85	5.9	4.6	6.0	-0.4	-0.5

Source: Lutzel, H.: Entwicklung des Sozialproduktes 1950 bis 1984, Wirtschaft und Statistik 6/1985, 3/1987. Bundesamt Wiesbaden: Statistiches Jahrbuch.

TABLE 3.3

THE DEVELOPMENT OF GROWTH AND PRODUCTIVITY: GDP, NATIONAL INCOME AND DISPOSABLE INCOME IN THE LONG RUN

At Constant Prices (1976)

	GDP		National income		Disposable income	
	in bill.	per person employed	in bill.	per person employed	in bill.	per inhabit-ant
	DM		DM		DM	
1950	263,1	13,446	176,0	8,801	146,4	3,052
1960	611,5	23,463	445,5	16,973	348,8	6,291
1970	956,6	36,017	749,2	28,094	604,5	9,966
1980	1,262,0	48,074	981,5	37,317	817,3	13,274
1973	1,083,6	40,567	854,1	31,725	667,4	10,930
1978	1,189,5	46,386	947,7	36,877	774,5	12,629
1985	1,342,0	52,682	1,011,6	39,618	835,9	13,698
average rate of growth per year in %						
1950/60	8.8	5.7	9.7	6.8	9.1	7.5
1960/70	4.6	4.4	5.3	5.2	5.7	4.7
1970/80	2.8	2.9	2.7	2.9	3.1	2.9
1980/85	1.2	1.8	0.6	1.2	0.5	0.6
1973/78	1.9	2.7	2.1	3.1	3.0	2.9
1978/85	1.7	1.8	0.9	1.0	1.1	1.2

Source: Statistisches Bundesamt Wiesbaden, Lutzel: Volkswirtschaftliche Gesamtrechnungen 1950-1984, 1984, 1986; Wirtschaft und Statistik 3/1987, 6/1985.

TABLE 3.4

THE DEVELOPMENT OF GROSS AND NET INCOMES PER PERSON IN THE LONG RUN

	National income per employed person	compen- sation	Gross Wage	Net Wage	Disposable income per inhabitant	Consumer Prices 1976=100
		per employee in DM per year				
1950	3,926	3,342	-	-	1,392	44,6
1960	9,148	7,128	6,144	5,172	3,396	53,9
1970	19,889	16,210	13,836	10,728	7,056	70.8
1980	43,700	36,633	29,928	21,168	15,540	117,1
1973	26,778	22,579	18,780	13,800	9,360	84,4
1978	39,274	32,379	26,580	18,948	13,452	106,5
1985	55,743	44,433	35,808	24,024	19,272	140,7
	average rate of growth per year in %					
1950/60	8.8	7.9	-	-	9.3	1.9
1960/70	8.1	8.6	8.5	7.6	7.6	2.8
1970/80	8.2	8.5	8.0	7.0	8.2	5.2
1980/85	5.0	3.9	3.7	2.6	4.4	3.7
1973/78	8.0	7.5	7.2	6.5	7.5	4.8
1978/85	5.1	4.6	4.3	3.4	5.3	4.1

Source: Statistisches   Bundesamt   Wiesbaden,   Lutzel: Volkswirtschaftliche Gesamtrechnungen 1950-1984, 1984, 1986; Wirtschaft und statistik 3/1987, 6/1985.

3.1) causes the long-run rise of the wage share in national income (Table 3.2). Taking into account the changing employment structure by the adjusted wage share[12] in Chart 2 the distribution of factor income shows just cyclical fluctuations but no long-run trend.

Turning to macro-economic trends, Tables 3.1-3.4 and Charts 2 and 3 present some basic indicators of the long-run economic and demographic development.

The twenty-five years after the war were a period of high growth. Real disposable income per person increased at a rate of 7.5% per year in the '50s and 4.7% in the '60s, and total employment by a yearly rate of 3.1% in the first period and 0.2% in the second. (Table 3.3, growth of employment implicit in columns 2 and 2.) But, while income and employment grew at a remarkably high rate, the distribution of income remained fairly stable: the actual share of wages in national income increased from about 60% in the early '50s to 68% in 1970, but neither the adjusted wage share[13] (Table 3.2 and Chart 2) nor the household distribution of income (Chart 1) showed a long-run change in these years.

In the '70s and early '80s when growth faltered and unemployment rose fast, both the adjusted wage share increased and the dispersion of household income narrowed; i.e. the size of the Gini coefficient decreased from 0.392 in 1970 to 0.334 in 1984. In the '70s employee's compensation grew, not only faster (8.8% per annum) than property and entrepreneurial incomes (6.1% per annum, cp. Table 3.2) but there was also a considerable increase in the share of property incomes accruing to non-self-employed households; in 1970 40% of all property incomes accrued to self-employed households, in 1980 about a third (BEDAU 1984).

Since 1981 unemployment has exploded and the actual and adjusted share of wages in national income has been falling, but the inequality in the household distribution of income narrowed further until 1984. Although one might have expected that the increase in unemployment would have reduced the lower incomes even more, the lower quintiles show a more or less steady increase in their income share until 1984, while the top quintile lost ground in the increasing share of profits in national income during this period. But since 1985 the size distribution of household incomes appears to have widened: the bottom quintile lost some share in income, with the top quintile being the main gainer in this process.

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[12]. The adjusted wage share takes into account the increasing share of employees in total employment; i.e. the actual wage share divided by an index of the share of wage earners in total employment (1960 = 100).

13. see footnote 12

4.   THE SIZE DISTRIBUTION OF HOUSEHOLD INCOME
      SINCE THE EARLY 1970s

     In this section we shall concentrate on the period since
the early '70s, and study demographic and structural factors
which may have led to the changes in the general distribution
of income.

     4.1   Demographic changes and the size distribution
            of income

     One of the most important demographic changes in the
post-war period has been the gradual ageing of the population
(cp Table 4.1). Since the old leaving the work force tend to
have a lower than average income, an increasing proportion of
elderly people tends to increase inequality by swelling the
numbers in the lower income groups. But, since the early
1980s this trend has clearly reversed.

TABLE 4.1

AGE DISTRIBUTION OF POPULATION (% SHARE)

	1961	1971	1981	1984
Less than 15 years old	21.7	22.5	17.6	15.4
From 15 to 65 years old	67.2	63.1	66.8	69.9
Over than 65 years old	11.1	14.4	15.6	14.7

Source: Bundesminister fur Arbeit und Sozialordnung:
           Hauptergebnisse der Arbeits- und Sozialordnung
           1984.

     The effect of this ageing population has, on the one
hand, been reinforced somewhat, by a substantial decline in
the participation rates of males over the age of 55, and of
females over 60. On the other hand, the on-going increase in
female participation, has increased total labour force
participation which is likely to have lowered the inequality
in household income, as the Gini coefficients in Table 4.5
indicate. The income of multiple-earner households is
considerably more equally distributed than that of one-earner
households which are over-represented in lower, as well as
higher income groups.

     The growing demand for higher education which is
indicated by falling participation rates of young people
certainly reduces inequality in individual incomes, but its

distributive effect on household income seems to be narrowing since the influx to higher education is higher in high-income groups. (Table 4.2 provides data on labour force participation rates by age and sex, Table 3.1 presents data on total participation.)

Another general trend which tends to increase inequality in addition to the ageing of the population, and which is partially related to it, is the <u>decline in the size of households</u>. The average household's size was 2.7 in 1972 and 2.3 in 1985 (Table 4.4). The share of one-person households increased in this period from 26% to 31.6% (cp Table 4.3). Using average figures for eight OECD countries M. Sawyer (1976:20) showed that nearly 70% of the households in the bottom decile were one-person households.

A contrary, but more than compensating effect, which tends to lower the inequality of household income, may have arisen from an <u>increasing proportion of two and more earner households</u>. The share of one-earner households decreased from 66.4% in 1973 to 60.8% in 1985, as the figures in Table 4.3 shows. This was quite a substantial shift, bearing in mind that, at the same time, the number of one-person households rose quickly. A glance at Table A.1 reveals that there had only been a slight shift in the mid '70s, but since 1978 household size fell, and the number of earners per household increased substantially.

TABLE 4.2

LABOUR FORCE PARTICIPATION RATES BY AGE AND SEX

Age	1972		1979		1985	
	Male	Female	Male	Female	Male	Female
15-20	62.1	60.4	52.0	46.2	47.9	41.9
20-25	83.6	67.0	81.1	69.2	80.1	73.8
25-30	93.0	53.4	90.2	60.8	87.9	67.0
30-35	98.1	48.1	97.3	55.0	96.4	61.6
35-40	98.7	48.5	98.3	53.6	97.7	61.9
40-45	98.4	50.0	98.1	54.4	97.6	61.6
45-50	96.7	50.7	96.6	51.3	96.6	57.1
50-55	93.9	46.5	92.9	46.7	93.2	50.2
55-60	86.2	36.0	82.3	38.4	79.1	37.8
60-65	68.5	17.7	39.5	11.4	33.0	10.9
65<	15.0	5.7	7.7	3.1	5.7*	2.5*
Total	77.5	39.1	72.8	39.2	60.3	35.9

* 1984

Source: Mikrozensus   Statistisches   Jahrbuck   fur   die
          Bundesrepublik   Deutschland.   Stat.   Bundesamt
          Wiesbaden.

TABLE 4.3

PRIVATE HOUSEHOLDS BY SOCIAL GROUP AND SIZE AND NUMBER OF EARNERS

Household by Social Group	Share of respective group in total		Average size	Share of respective one-person household		Group in total one-earner household	
	1973	1985	1985	1973	1985	1973	1985
	in %		persons per 100 households	in %		in %	
Self-employed	9.7	7.6	314	9.0	12.1	70.1	42.3
Farming	2.6	1.6	415	3.4	4.3	79.5	32.6
Non-farming	7.1	6.0	289	11.1	14.2	66.8	45.0
Employees (incl. unemployed)	56.4	52.5	268	16.1	19.9	60.0	54.7
Civil servants	6.2	6.3	282	18.0	16.0	65.4	58.1
Non-manual	20.3	22.4	249	18.4	25.6	65.8	61.1
Manual	29.9	23.8	283	14.2	15.6	55.0	47.8
Retired	33.8	39.9	164	47.2	50.7	76.0	72.4
Old-age pensions (private)	29.4	35.9	164	47.2	50.6	76.1	72.4
Public pensions (Government)	4.4	4.0	161	47.0	51.9	74.8	72.2
Total	100.0	100.0	231	26.0	31.6	66.4	60.8

in 1,000

Private households	22.735	25.175		5.900	7.955	15.095	15.3

TABLE 4.4

	Share of respective group in total			Average size			Disposable income per household			per person		
	1972	1982	1985	1972	1982	1985	1972	1982	1982	1972	1982	1
	in %			persons per 100 households			average = 100		1972 = 100	average = 100		=
Farming	2.5	1.7	1.5	463	436	415	132	121	160	76	68	
Non-farming	6.7	5.9	6.0	326	311	289	276	271	171	225	214	
Civil servant	6.2	6.3	6.2	318	303	282	120	126	184	100	102	
Non-manual	19.4	21.7	20.9	282	267	249	114	116	178	108	107	
Manual	30.6	22.7	22.1	319	308	283	87	92	185	73	74	
Unemployed	0.5	2.6	3.2	287	250	225	58	53	159	54	52	
Retired	30.5	34.3	33.6	172	167	164	64	69	188	98	101	
Others	3.8	4.9	6.5	190	190	200	64	61	167	90	79	
All	100.0	100.0	100.0	266	245	231	100	100	174	100	100	
	in 1000						in DM			in DM		
All private households	22,647	24,724	25,615				22,548	39,335		8,487	16,	

Source: Stat. Bundesamt Wiesbaden: Schuler, K.
Einkommensverteilung nach Haushaltsgruppen,
Wirtschaft und Statistik 7/1984

Using Gini coefficients as a measure, Table 4.5 compares the inequality of disposable household income according to the size of household and the number of earners. Income distribution within multiple-earner households is substantially more equal than within one-earner households.

While the income inequality of one-person and one-earner households did not change in the '70s, the Gini measures indicate a narrowing of the dispersion of incomes of multiple-person households and particularly of multiple-earner households.

TABLE 4.5

COMPARISON OF THE INCOME INEQUALITY
BASED ON HOUSEHOLD SIZE

Household size	Gini coefficient		
	1973	1975	1978
One earner	.385	.386	.385
Two and more earners	.274	.258	.251
One person	.315	.305	.316
Two person	.336	.329	.324
Three persons	.298	.286	.281
Four persons	.299	.278	.272
Five and more persons	.290	.280	.280
All households	.370	.366	.364

Source: DIW: Bericht der Transfer-Enquete-Kommission,
          Bd 1(2) 1982.

The evidence on the distributive effects of the socio-demographic changes since the early '70s does not, at first glance, seem to be clearly conclusive.   While the gradual ageing of the population, the decreasing participation rates of the elderly and the falling size of households, are likely to have widened the dispersion of household income, rising womens' participation and, partially related, the increase in multiple-earner households seems to have lowered inequality.   A glance at the development of the general distribution of household income suggests that factors leading to greater inequality were dominant.

4.2   Socio-economic changes and the size distribution of income

The distribution of income is necessarily linked to the socio-economic structure of the economy.   As the conditions of production and remuneration vary with sectors;   occupations, employment status, age and sex;   population shifts react automatically on the general distribution of income.

The principle factors determining the overall distribution of income are:

-   income differentials between various sectors and social groups;

-   the relative size of the respective sectors and groups as

measured by the proportion of the population which they employ; and

- the extent of dispersion of incomes within each sector or group.

4.2.1 Differentials in gross earnings of individuals and households

There are many different sources of inequality in individual pay. There are inequalities which result from industry or geographical location, or the size of the firm in which a person is employed. Other sources of inequality are associated with the personal characteristics of the individual like sex, age, and education. Still other dimensions of inequality derive from differences in working hours, or from the place of the worker in the occupational hierarchy. We are now going to look at the same data illustrating the most important dimensions of inequality.

Pay differentials between sectors and industries

Saunders and Marsden (1981) found that "West Germany had the most equal pattern of pay" (p. 344) of the EC-member countries for the 1970s. This data, however, is only available up to 1978. According to the latest available data on labour costs in the EC, inter-industrial wage differentials seem to have widened considerably in German industry since 1978. An international comparison of inter-industrial hourly labour cost differentials for manual workers shows that earnings differentials in Germany and Austria are by far the largest in industrialized Europe, though they are still significantly lower than in the USA and Japan. (Guger 1987)[14]

Information on inter-sectoral differentials in earnings per year is shown in Table 4.6. In energy and insurance activities people earn between 30% and 40% more than the average wage, in tourist services incomes are about 40% and in farming 20% below the average income. There has not been a significant change in the inter-sectoral wage differentials since 1975 and as the data in Table 4.6 indicates, the coefficient of variation decreased just slightly between 1975 and 1985.

Occupational pay differentials

The simplest form of occupational differential is between manual and non-manual workers. (Tables 4.7 and 4.8.) Earnings differentials between manual and non-manual workers are quite

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[14]. The coefficient of variation of labour costs varies between 8.5 and 19.7 in Europe; Germany being on the upper end and Sweden and Denmark on the bottom.

substantial, and have slightly widened in the last decade. According to the data in Table 4.8 the earnings of male manual workers were, on the average, 25% below the income of non-manual workers in 1973 and about 30% in 1982 and 1985 (Table 4.7). Evidence which accords to the hypothesis that the incomes of blue-collar workers varies more significantly with labour market conditions than the salaries of white-collar workers. As the figures illustrate, this increase in the disparity between blue and white-collar incomes is entirely confined to the final goods production and building; there were no changes in the occupational earnings differentials in basic industry, mining, and energy production.

Skill differentials in earnings

Pay inequalities within each occupational group, manual or non-manual workers, are to some extent the result of skill differentials. Manual workers of the lowest skill earn about 20% less than their highest skilled colleagues. This relationship has remained fairly stable for blue-collar workers since the early '70s, but widened for white-collar workers. The skill differentials in salaried income are much wider than in manual earnings. In 1973 the average salaries of the lowest-skilled group was 50% of those in the highest-skilled group, and in 1982 45% (Table 4.8). But, as the data of Saunders and Marsden (1981 Chapter 4.8) suggests, this increase in salary differentials was confined to the late '70s and early '80s.

Pay differentials according to sex, age and education

In every country the distribution of income among economically active persons is subject to the influence of differences in remuneration according to sex, age, and education.

The differentials in remuneration between men and women are partly due to differences in activities, education, and working time, and partly to discriminatory practices. Table 4.9 presents some evidence for full-time employees in Germany. In 1981, the remuneration of full-time employed women was two-thirds that of men's earnings for both manual and non-manual workers. Sexual wage differentials are smaller in energy production, banking and insurance than on average (Table 4.7). As Saunders and Marsden (1981) showed, during the 1970s the tendency was for women's pay differentials to narrow. But, in the 1980s, sexual wage differentials narrowed for manual workers only, as the data in Tables 4.7 and 4.9 reveal.

There are inter-relationships between age, sex, education, and experience which cause inequalities in pay. On the whole, remuneration increases with age and education; people under 30 with or without professional training earn considerably less than the average. Academics and people with higher

professional training earn 40% more (Table 4.9).

Since women generally stop working at an earlier age than men the women's labour force is younger than that of men. For most women high activity rates in youth are followed by years of domestic activity and restricted earning possibilities in the case of a subsequent return to paid work. This factor may be of more importance to salary earners because of the frequent use of incremental wage scales for non-manual workers. For women manual workers, on the other hand, their concentration within low-wage industries and shorter hours are more important factors. (cp. Saunders and Marsden 1981, chapter 5 for further information).

The statistical basis is too weak to identify sexual pay discrimination; thus, the question of whether the principle of 'equal pay for equal work' is fully applied remains unanswered.

To give precise weight to all the various factors involved in individual earning differentials and their mutual interactions is not possible because information is too incomplete. However, a broad assessment of the changes in earning differentials in Germany suggests that pay dispersion narrowed gradually until the late '70s, and then widened, due to increasing differentials within white-collar workers, in the late '70s and early '80s. But, taking into account differences in working time, by looking at the yearly earnings per employee, the overall distribution has been fairly stable since the mid '70s (Table 4.6).

At the household level, the data presented in Table 5.1 and 5.2 shows that total income (i.e. gross income including transfer payments) tended to become more unequal between social groups from 1973 to 1978 and less so between 1978 and 1985. The coefficient of variation of total household income between social groups increased from 56 in 1973 to 60 in 1978, and 62 in 1985.

4.2.2 Changes in the socio-economic structure

Since average incomes between social groups and sectors vary, population shifts in the course of economic development automatically react on the general distribution of income.

The long-run shifts in the occupational and skill structure of the working population are likely to lower earnings differentials. The falling numbers of self-employed and manual workers (Table 4.10) as well as the well-documented general trend towards a higher-qualified work force (Zangl 1977, Wolfmeyer and Warnken 1981) suggest a narrowing in the dispersion of income.

The increase in women's participation - as illustrated in Table 4.2, and by the sexual composition of the labour force in Table 4.10 - is, on the one hand, more likely to widen

individual wage dispersion but, on the other hand, leads to greater equality in household incomes by adding comparatively more to family incomes in the lower income groups than those in higher ones.[15]

The impact of the changing <u>structural distribution of employees between activities</u> is more difficult to predict. A simple comparison of the employment and earnings structures in Table 4.10 and 4.6 seems to suggest that some movement towards greater inequality arose from structural change, i.e. the decline in manufacture's employment share has not been compensated for by a similar increase in some other high-wage activities.

The question arises as to whether wages play the role which is attributed to them in theory, or not; i.e. does paid employment increase in high-wage industries and diminish in low-paid activities? The recent structural changes in the economy have, in fact, been shifts to low-wage services and away from high-wage industries. If wages fulfill their orienting function, there should be a positive correlation between the wage and employment structure of an economy. Looking at this particular relationship Janke (1981) could not find any significant correlation between the wage and employment structure in manufacturing in Germany between 1960 and 1978; i.e. no orienting function of wages, as neo-classical economics postulates, could be verified. Hence, though shifts in employment structures are quite remarkable, the results of Janke's research suggests that the effects of this structural change in income distribution would not necessarily tend to greater equality.

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15. This may change in the near future, in the US for instance, labour force participation rates are rising most rapidly for women who are married to men with high incomes (Thurow 1980).

TABLE 4.6

EARNINGS DIFFERENTIALS BY ACTIVITY 1975 AND 1985

	Yearly Earnings per Employee		
	Index: Total = 100		Average yearly rate of growth
	1975	1985	1975-85
Activity			
Agriculture, forestry and fishing	74.6	79.9	5.7
Industrial production	100.7	107.3	5.6
Energy	131.6	132.0	5.0
Mining	123.6	124.8	5.1
Manufacturing	100.0	110.0	6.0
Building	96.1	88.2	4.1
Trading	82.4	87.3	5.6
Transport and communication	108.3	101.8	4.3
Services	87.1	86.8	4.9
Banking and finance	121.7	120.4	4.8
Insurance	130.6	138.7	5.6
Hotel and restaurants	56.4	58.7	5.4
Education, science and culture	103.1	99.1	4.5
Private enterprises	96.3	99.7	5.3
Public services	119.6	105.0	3.6
Administration	119.7	105.0	3.6
Social security	118.4	104.6	3.7
Total	100.0	100.0	
Coefficient of variation	21.80	21.38	
in DM			
	22.087	35.816	5.0

Source: Schoer, K.: Bruttolohne und -gehalter 1975 bis 1985, Wirtschaft und Statistik 11/1986.

TABLE 4.7

EARNINGS DIFFERENTIAL BY INDUSTRY, OCCUPATIONAL STATUS AND SEX

1985

Earnings per year

	Manual workers Non manual = 100	Women Men = 100	
		manual	non-manual
Industrial production	68.7	69.0	65.3
Energy	83.7	71.9	70.6
Mining	67.9	-	66.6
Manufacturing	68.8	67.9	65.2
Building	65.0	-	62.0
Distribution			
Wholesale	-	-	68.4
Retail	-	-	66.7
Banking	-	-	75.7
Insurance	-	-	76.6
Total	-	-	63.1

Source: Hake, L.: Bruttojahresverdienste in Industrie und Handel 1985, Wirtschaft und Statistik 12/1986.

TABLE 4.8

CHANGES IN EARNINGS DIFFERENTIALS OF MALE EMPLOYEES
FOR OCCUPATIONAL STATUS AND SKILL

	Manual Non-manual		Weekly/monthly earnings of the lowest skill group in % of the highest			
			Manual		Non-manual	
	1973	1982	1973	1984	1973	1984
Activity						
Energy	75	74	79	78	53	48
Mining	60	60	69	70	57	58
Basic & semi-finished products	71	71	84	83	50	49
Investment goods	69	62	79	80	47	47
Consumer goods	71	66	77	79	49	48
Food production	73	70	81	81	52	51
Building	64	61	79	80	43	39
Services (distribution, banking, insurance)					53	48
Total	(82) 74	69	(81) 79	80	(46) 50	45

( ) 1962

Source: Bundesministerium fur Arbeit und Sozialordnung: Arbeits und Sozialstatistik, Hauptergebnisse 1984, 1973/74, 1963.

TABLE 4.9

EARNINGS DIFFERENTIALS BY AGE AND EDUCATION
OF FULL-TIME EMPLOYEES

1981

	Yearly Gross Wage per employee	Index
Age		
15-20	17,705	52.1
20-30	29,397	86.6
30-40	36,316	106.9
40-50	36,407	107.2
50-60	35,366	104.1
60≤	33,837	99.6
Education		
Compulsory schooling		
No professional training	29,327	86.4
Plus professional training	34,690	102.1
High School (A-level, Abitur)		
No professional training	38.554	113.5
Plus professional training	40,945	120.6
Higher professional education	48,048	141.5
University degree	49,410	145.5
Sex and occupational status		
Manual worker	31,892	93.9
Male	34,403	101.3
Female	22,272	65.5
Non-manual worker	36,396	107.2
Male	43,004	126.6
Female	28,557	84.1
Total	33,962	100.0

Source: Bundesamt Wiesbaden: Mayer, H-L., Becker,
B.: Sozialversicherungspflichtige Beschaftigte nach
Beschaftigungsdauer, Bruttoarbeitsentgelt und Art der
Beschaftigung, Wirtschaft und Statistik 12/1984.

TABLE 4.10

EMPLOYMENT STRUCTURE BY SEX, OCCUPATIONAL STATUS AND ACTIVITY

	1972	1978	1984
	percentage share		
Sex			
Men	63.5	62.7	61.8
Women	36.5	37.3	38.2
Occupational status			
Self-employed	15.0	12.8	11.8*
Employers	85.0	87.2	88.2*
Civil Servant	7.7	8.7	8.9*
Non-manual worker	32.0	36.1	39.5*
Manual worker	45.3	42.3	39.8*
Activity			
Agriculture, forestry and fishing	7.2	5.8	5.2
Industrial production	47.4	44.6	41.8
Energy and mining	2.0	2.0	2.0
Manufacturing	37.6	35.8	32.2
Building	7.7	6.8	7.7
Trading	12.1	11.9	12.4
Transport and communication	5.7	5.8	5.8
Services	26.9	31.1	34.8
Banking and insurance	2.8	3.1	3.5
Other services	13.6	16.0	19.6
Non-profit organisations	1.5	1.8	1.7
Administration and social security system	9.0	10.1	10.0
Total employment	100.0	100.0	100.0

* 1985 (Mikrozensus, Wirtschaft u. Statistik 4/1987, p. 295).

Source: Statistisches Jahrbuch fur die BRD, Stat. Bundesamt Wiesbaden.

Although it is doubtful whether the distribution of employees' between various activities has affected income distribution, the shift in the <u>social structure of households</u> since the early '70s (cp. Table 4.4) has led to inequality. Though there has been some decrease in the share of self-employed households, whose income is well above the average, the increasing share of the low-income groups has had more impact on distribution; the share of non-active households (retired, unemployed, and others, i.e. students etc.) increased from 34.8% in 1973 to 43.3% in 1985. In 1982 the disposable household income of these groups was between 47% and 39% below the average. While the number of unemployed households increased between 1972 and 1982 at a rate of 19% per annum, their relative disposable income fell back from 58% to 53% of average income. (Table 4.4)

Therefore we can say that the effect of structural changes in the labour force point in opposite directions:

(1) the shifts in sexual, occupational, and qualitative composition led to greater equality in the size distribution of household income;

(2) the structural changes between activities are less conclusive, but are more likely to have widened dispersion; and

(3) the rising share of non-active households have increased inequality.

This effect is underlined by the large decline in the Gini measure for each social group, with the exception of the self-employed, than for all households together (cp Tables 5.3-5.5).

5.   THE REDISTRIBUTIVE IMPACT OF THE WELFARE STATE

In this final chapter, after looking at the influence of taxes and transfer payments on the size distribution of household incomes, we are going to study the inequality of disposable household incomes within social groups and the changes in it since 1973.

Tables 5.1 and 5.2 present data[16] on original (i.e. market or primary) household income, on transfer payments, on taxes, and social security contributions. This data on transfer payments includes social and private transfer payments, i.e. payments between households, and from firms to households, such as private pensions and insurance payments; and the data on taxes and social security contributions also include private insurance premiums.

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[16].   Households of unemployed are not separated in this date; they are part of their professional group. But compare Table 4.4.

The activities of the welfare state increased continuously in the period under consideration: In 1973 original income amounted to 84% of total income, in 1985 to 80%. While original income increased by 5.2% per annum, transfer payments grew at a rate of 8.0%.

The bulk of this shift from market to transfer income happened in the mid '70s; between 1973 and 1978 transfer payments expanded at a yearly rate of 11% (cp. Table 5.1), while taxes and social security contributions increased by 7.4% per annum.[17] Thus, the disposable to total income ratio remained constant at 70%. In the later period, between 1978 and 1985, the increase in transfer payments was no greater than that of taxation, that is 6.0%. Hence, the disposable to total income ratio fell to 66% in 1985.

The flow of transfer payments and taxes between social groups (in Tables 5.1 and 5.2) shows a quite remarkable pattern.[18] The rate of growth of transfer payments to non-farm self-employed, whose income is about three times higher than the average income, is by far the highest one, while the increase in their tax payments is one of the lowest. Hence, their income after redistribution is still more than three times higher than the average income.

While, from 1973 to 1978 inequality between social groups had declined slightly - the coefficient of variation of disposable household income fell from 52 to 51 - there has been a remarkable increase since then, the coefficient of variation was 63 in 1985. The most important factors causing this development since the late '70s were the explosion of transfer payments to the self-employed, especially to non-farming households, and the increase in social security contributions (i.e. health insurance) of the retired. While, on the one hand, transfer payments to the average household increased at a rate of 6.0% per annum farmers got 18.1% and other self-employed 25.3% more per annum. On the other hand, taxes and social security contributions of the retired increased at a yearly rate of more than 16% while the average increase was 6.0%. Since 1978, and even more so since 1983, this high increase in the social security contributions of pensioner households has been part of a number of policy measures to reduce public-budget deficits, which has also included measures to slow down the increase in total pensions, unemployment allowance, and assistance payments.

In the late '70s and '80s farmer and manual worker households dropped below their 1973 income position. i.e. in 1975 farmers earned about the average of all incomes, while

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[17]. We should mention here, however, that there is serious doubt about the comparability of the data on transfer payments over time.

[18]. See footnote 17.

TABLE 5.1

AVERAGE HOUSEHOLD INCOME BY SOCIAL GROUPS
IN GERMANY 1973, 1978, 1985

DM per month
(Index: Average income of all households = 100)

	Self-employed		Non Manual workers	Civil servants	Manual workers	Old age pensions	Public pensions	All households
	Farming	Non Farming						
1973								
V = 77								
Original income	3390	7569	3285	2980	2808	324	388	2433
Transfer payments	114	93	182	130	220	910	1460	453
Total income	3504	7662	3467	3110	3028	1234	1848	2886
V = 56	(121)	(265)	(120)	(108)	(105)	(43)	(64)	(100
Income taxes and contributions to social security	527	2313	1360	707	1165	85	280	885
Disposable income	2977	5349	2107	2403	1863	1149	1568	2001
V = 52	(149)	(267)	(105)	(120)	(93)	(57)	(78)	(100
1978								
V = 78								
Original income	4566	10522	4694	4200	3895	450	525	3278
Transfer payments	295	216	340	229	423	1389	2061	762
Total income	4861	10738	5034	4429	4318	1839	2586	4040
V = 60	(120)	(266)	(125)	(110)	(107)	(46)	(64)	(100
Income taxes and contributions to social security	764	3291	2043	1001	1746	131	410	1262
Disposable income	4097	7447	2991	3428	2572	1708	2176	2778
V = 51	(147)	(268)	(108)	(123)	(93)	(61)	(78)	(100
1985								
V = 81								
Original income	4408	15570	6812	5916	5109	812	1048	4458
Transfer payments	946	1047	449	541	491	1904	3332	1146
Total income	5354	16617	7261	5457	5600	2716	4380	5604
V = 62	(96)	(279)	(130)	(97)	(100)	(48)	(78)	(100
Income taxes and contributions to social security	1570	4814	3124	1976	2419	380	1171	1899
Disposable income	3744	11804	4136	4482	3180	2338	3201	3706
V = 63	(101)	(319)	(112)	(121)	(86)	(63)	(86)	(100

V = coefficient of variation

Source: DIW: Schriften zum Bericht der Transfer-Enquete-Kommission
          bd 1(2) 1982, Bedau, K-D.:   Wochenbericht 51-52/1986.

TABLE 5.2

INCREASE IN GROSS AND NET HOUSEHOLD
INCOME IN GERMANY 1973-1985

(average percentage change per year)

	Self-employed		Non Manual workers	Civil servants	Manual workers	Old age pensions	Public pensions	All household
	Farming	Non Farming						
1973/1978								
Original income	6.1	6.8	7.4	7.1	6.8	6.8	6.2	6.
Transfer payments	20.1	18.4	14.5	12.0	14.0	8.8	7.1	11.
Total income	6.8	7.0	7.7	7.3	7.4	8.3	7.0	7.
Income taxes and contributions to social security	7.7	7.3	8.5	7.2	8.4	9.0	7.9	7.
Disposable income	6.6	6.8	7.3	7.4	6.7	8.3	6.8	6.
1978/1985								
Original income	-0.5	5.8	5.5	5.0	4.0	8.8	10.4	4.
Transfer payments	18.1	25.3	4.1	13.1	2.2	4.6	7.1	6.
Total income	1.4	6.4	5.4	3.0	3.8	5.7	7.8	4.
Income taxes and contributions to social security	10.8	5.6	6.3	10.2	4.8	16.4	16.2	6.
Disposable income	-1.3	6.8	4.7	3.9	3.1	4.6	5.7	4.
1973/1985								
Original income	2.2	6.2	6.3	5.9	5.1	8.0	8.6	5.
Transfer payments	19.3	22.4	7.8	12.6	6.9	6.3	7.1	8.
Total income	3.6	6.7	6.4	4.8	5.3	6.8	7.5	5.
Income taxes and contributions to social security	9.5	6.3	7.2	8.9	6.3	13.3	12.7	6.
Disposable income	1.9	6.8	5.8	5.3	4.6	6.1	6.1	5.

Source: DIW: Transfer-Enquete-Kommission Bd 1(2) 1982, DIW-Wochenbericht 51-52/1986.
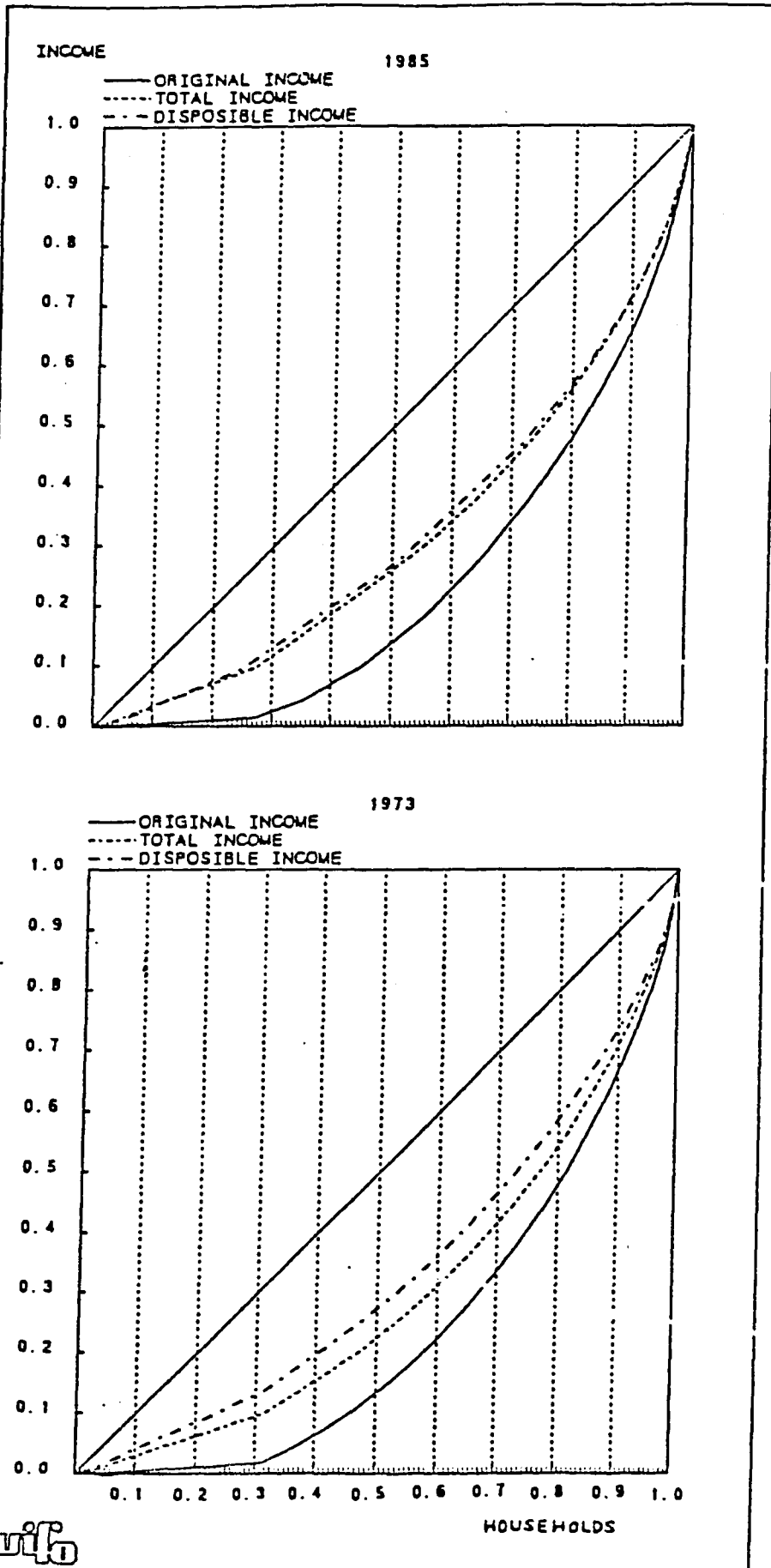
TABLE 5.3

REDISTRIBUTION OF HOUSEHOLD INCOMES BY PUBLIC TRANSFERS AND TAXES IN GERMANY

All households 1985

Deciles	Original income	Transfer Payments	Total income	Disposable income
		Decile share		
1.	0.6	15.6	3.7	3.6
2.	0.6	15.6	3.7	4.2
3.	1.5	16.9	4.6	5.6
4.	4.5	16.3	6.9	6.8
5.	6.8	9.4	7.3	6.8
6.	8.8	5.4	8.1	9.2
7.	11.2	4.6	9.9	9.3
8.	13.8	4.7	11.9	11.6
9.	17.9	4.8	15.2	14.6
10.	34.3	6.7	28.7	28.3
Gini	0.519	-0.258	0.360	0.344

Source: Deutsches Institut fur Wirtschaftsforschung (DIW): Wochenbericht 51-52/1986.

CHART 4

REDISTRIBUTION BY TRANSFERS AND TAXES
LORENZ CURVES

INCOME

1985

——— ORIGINAL INCOME
······ TOTAL INCOME
— · — DISPOSIBLE INCOME

1.0
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0

1973

——— ORIGINAL INCOME
······ TOTAL INCOME
— · — DISPOSIBLE INCOME

1.0
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0

0.1   0.2   0.3   0.4   0.5   0.6   0.7   0.8   0.9   1.0

HOUSEHOLDS

wifo

in 1973 their disposable income had been 20% above average.
The income position of worker households worsened from 7.0%
below average in 1973 to 14.0% below in 1985. While civil
servants held their position at 20% above average, non-manual
workers improved their position from 5.0% to 12.0% above this
level, and old-age pensioners, as well as state pensioners,
fell below average, from 43.0% to 37.0% and 22.0% to 14.0%
respectively. Non-farming self employed, however, jumped from
165% to 220% above the average level.

Thus, there has been a considerable change in social and
economic policy; while the inequality of income between social
groups declined slightly until 1978, it widened significantly
from the late 1970s owing to more than proportionally rising
transfer payments to the highest income group, and the more
than proportional increase in taxes and social security
contributions of the lowest income groups, like pensioners.

Table 5.3 presents an overall view of the redistributive
effects of the welfare state for all households in 1985,
including data on the decile distribution of the various
components of disposable income: the data shows the important
impact of transfer payments on distribution; about three
quarters of all transfer payments go to the five lower deciles.
The Gini coefficient is reduced from .519 to .360 by transfer
payments, but the influence of the tax system is comparatively
small. The Gini measure of disposable income in 1985 amounted
to .344 compared to .360 for total income.

Another important factor, mentioned above, is the
dispersion of income within social groups. Tables 5.4-5.6
present data on the distribution of disposable incomes within
the social groups under consideration in 1973, 1978 and 1985.

As the distribution of decile shares and the Gini
coefficient show, the household incomes of the private
economy's old-age pensioners are distributed more unequally
than the other groups, though the Gini measure fell from .341
to .294 between 1973 and 1985. This comparatively wide
dispersion seems to be due to the large number of one-earner
households in this group.

With the exception of self-employed households, inequality
decreased in all social groups and generally over all
households during this period. In 1985, farmers' (Gini .206),
manual workers' and state pensioners' household incomes (Gini
.222 for both) were the most equally distributed.

Though inequality by social groups increased considerably
between 1978 and 1985 according to the Gini coefficient, the
overall distribution of income narrowed even more during this
period. The Gini coefficient of disposable income for all
households fell from .370 in 1973 to .364 in 1978 to .352 in
1985.

6. SUMMARY

The long-run development of the distribution of household disposable income in Germany showed a <u>trend towards greater equality</u> in the 1950s and early 1960s, and again in the 1970s, up to the early 1980s. The bottom quintiles gradually gained income shares at the cost of the top quintile during these periods.

The factors which reacted upon distribution were numerous and of diverse influence and importance at different periods. The most important impact, which led to greater equality, probably goes back to socio-demographic changes. Although the gradual ageing of the population, and the fall in the size of households, and in the participation rates of the elderly, have tended to increase inequality in household incomes, <u>the narrowing influence of the increase in multiple-earner households</u>, and rising women's participation seems to have dominated the development and led to greater equality.

In the 1970s the impact of these socio-demographic factors was less pronounced, their influence was reinforced by a narrowing of pay differentials and shifts in the occupational and skill structure of the labour force, and by rising transfer payments by the state which contributed to the tendency to greater equality.

Since the late 1970s, however, although individual pay differentials widened, the dispersion of household incomes between social groups increased, and the redistributive activities of the state were reduced substantially (cp. Chart 4). The increase in multiple-earner households has had such a dominating impact, as a consequence of rising women's participation, that equality within in each social group, and in the general distribution of disposable household income has increased.

TABLE 5.4

DISTRIBUTION OF DISPOSABLE HOUSEHOLD INCOME
IN GERMANY 1973

Deciles	Self-employed Farming	Self-employed Non Farming	Non manual workers	Civil Servants	Manual workers	Old Age Pensions	Public pensions	All household Average income per mon	DM
				Decile share					
1.	5.7	4.4	4.0	4.2	4.1	3.1	3.9	2.6	52
2.	6.8	5.6	5.2	5.5	5.2	4.1	4.7	3.8	75
3.	7.6	6.4	6.2	6.6	6.3	5.2	5.4	4.9	98
4.	8.2	7.1	7.2	7.5	7.3	6.3	6.1	6.1	121
5.	8.8	7.9	8.2	8.5	8.3	7.3	7.0	7.3	146
6.	9.6	8.8	9.4	9.6	9.4	8.4	8.3	8.7	174
7.	10.4	9.9	10.8	10.8	10.8	10.2	10.0	10.4	208
8.	11.5	11.4	12.6	12.4	12.5	12.9	12.3	12.6	252
9.	13.3	13.8	15.2	14.8	15.0	16.7	15.7	16.0	319
10.	18.1	24.8	21.4	20.1	21.1	25.8	26.6	27.5	550
Median: 50% earn	37.1	31.4	30.8	32.3	31.2	26.0	27.1	24.7	
Median income	2735	4475	1850	2160	1649	195	1189	1602	
Average income	2985	5348	2106	2405	1862	1149	1561	2000	
Gini	.187	.278	.275	.252	.268	.341	.334	.370	

Source: Bundesministerium fur Arbeit und Sozialordnung (ed.): Schriften zum Bericht der Transfer-Enquete-Kommission "Das Transfersystem in der Bundesrepublik Deutschland" Bd 1(2), Kohlhammer, Stuttgart 1982.

TABLE 5.5

DISTRIBUTION OF DISPOSABLE HOUSEHOLD INCOME
IN GERMANY 1978

	Self-employed		Non manual workers	Civil serv- ants	Manual workers	Old age pensions	Public pensions	All househo	
	Farming	Non- Farming				Pensions		Avera inco per mo	
Deciles				Decile share					
1.	5.9	4.0	4.1	4.1	4.1	3.4	4.0	2.6	7
2.	6.9	5.2	5.4	5.6	5.5	4.2	4.8	3.8	10
3.	7.5	5.9	6.5	6.7	6.6	5.0	5.7	5.0	13!
4.	8.2	6.6	7.5	7.7	7.7	5.8	6.5	6.3	17
5.	8.8	7.3	8.5	8.7	8.6	6.8	7.4	7.6	21(
6.	9.5	8.0	9.5	9.8	9.7	8.3	8.8	8.9	24!
7.	10.5	9.0	10.8	11.0	10.9	10.3	10.5	10.5	29
8.	11.6	10.4	12.3	12.5	12.4	13.0	12.9	12.5	34!
9.	13.3	12.6	14.8	14.6	14.6	16.9	16.0	15.6	43
10.	17.7	31.0	20.7	19.4	19.8	26.3	23.4	27.1	75
Median 50% earn	37.3	29.0	30.0	32.8	32.5	25.2	28.4	25.3	
Median income	3776	5694	2692	3163	2356	1274	1755	2293	
Average income	4092	7447	2992	3429	2570	1707	2176	2778	
Gini	.311	.311	.260	.244	.248	.355	.308	.364	

Source: Bundesministerium fur Arbeit und Sozialordnung (ed.): Schrifte
         zum Bericht der Transfer-Enquete-Kommission "Das Transfersysten
         in der Bundesrepublik Deutschland" Bd 1(2), Kohlhammer,
         Stuttgart 1982.

TABLE 5.6

DISTRIBUTION OF DISPOSABLE HOUSEHOLD INCOME
IN GERMANY 1985

Deciles	Self-employed Farming	Non-Farming	Non Manual	Civil Serv-ants	Manual workers	Old Age pensions	Public pensions	All househol	Average income per mont DM
				Decile share					
1.	4.5	3.8	4.1	4.2	4.2	2.9	4.4	3.0	1110
2.	6.3	5.5	5.8	6.0	6.1	4.9	6.2	4.5	1668
3.	7.4	6.5	6.8	7.0	7.2	6.2	7.2	5.5	2036
4.	8.3	7.4	7.7	7.9	8.2	7.3	8.1	6.4	2377
5.	9.1	8.3	8.6	8.8	9.0	8.5	8.9	7.4	2733
6.	10.0	9.3	9.5	9.7	9.9	9.6	9.8	8.5	3138
7.	10.9	10.4	10.6	10.7	10.9	11.0	10.8	9.8	3641
8.	12.0	11.9	11.9	12.0	12.1	12.6	12.0	11.7	4337
9.	13.6	14.3	14.1	13.9	13.8	15.0	13.7	14.9	5518
10.	17.9	22.4	21.0	19.7	18.6	22.1	19.0	28.3	10500
Median 50% earn	35.7	31.6	32.9	34.0	34.6	29.7	34.7	26.8	
Median income	3567	10386	3730	4146	3013	2111	2992	2925	
Average income	3734	11806	4137	4482	3179	2338	3203	3706	
Gini	.206	.272	.251	.233	.222	.294	.222	.352	

Source: Deutsches Institut fur Wirtschaftsforschung (DIW):
Wachenbericht 51/52/1986.

APPENDIX

A.1 Table A.1:   The size composition of private households
               by social groups 1973, 1978, and 1985.

A.2 The reliability of the available data basis.

1.   The Income and Expenditure Survey:

     The IES is a five year representative sample survey which
has been in operation since 1962/63.   The survey looks at the
income and expenditure of private households, and their socio-
economic characteristics, excluding foreign and very high-
income households.   The survey is based on a voluntary sample
of 50,000 households, i.e. 0.2% of all private households.   The
households co-operating are asked to write down carefully all
their income for one year, and each expenditure item for one
month, and to declare the rough structure of the expenditure
over the whole year.   People who are not living in families
(hospital etc.), households of foreigners and of very high
income are excluded.   As in all comparable surveys there is
evidence that inequality is underestimated by the IES.   (Euler
1983, 1983a).

2.   The Mikrozensus

     The Mikrozensus is a 1% representative yearly survey on
personal and socio-economic characteristics of the population.
There had been regular surveys from 1957 to 1982, but they were
postponed in 1983 and 1984 and this survey programme started
again in 1985.   Hence, only a small amount of data from the
1985 survey was available, and the Bundesamt has to rely on the
EUROSTAT labour force statistics data for these years.

3.   Tax Statistics

     The income tax statistics cover individuals who are taxed
on assessment.   Spouses are normally assessed jointly
(splitting method).   Individuals only receiving wage incomes
under a certain income level pay no wage taxes and are not
assessed (1977 two-thirds of all wage-tax payers), and
therefore not included in the tax statistics.

4.   National Accounts

5. <u>Wage and Earnings Statistics</u>

There are yearly wage and earnings statistics covering wage rates and earnings on a national and regional basis by industries, and qualifications provided by the Statistisches Bundesamt Wiesbaden and in three-year periods by the EUROSTAT labour cost surveys.

6. <u>DIW Data</u>

The distribution accounting of the Deutsches Institut fuer Wirtschaftsforschung in Berlin based on data of various sources (Mikrozensus, Income and Expenditure surveys, and National Accounts) of the Statistisches Bundesamt Wiesbaden (cp. Goseke and Bedau 1974).

TABLE A.1

THE SIZE COMPOSITION OF PRIVATE HOUSEHOLDS
BY SOCIAL GROUPS

House-hold size	Self-employed		Non-Manual workers	Civil Servants	Manual workers	Old Age Pensions	Public pensions	Al hou hol
	Farming	Non-Farming						
1973								
1	3.4	11.1	18.4	18.0	14.2	47.2	47.0	26.
2	13.7	24.9	24.5	25.1	22.6	36.3	35.6	27.
3	19.7	22.2	26.1	25.8	26.6	10.9	11.4	20.
4	22.2	20.0	18.9	18.7	20.6	3.4	3.5	14.
5 +	41.0	21.8	12.1	12.4	16.0	2.2	2.5	11.
one earner household	79.5	66.8	65.8	65.4	55.0	76.1	74.8	66.
1978								
1	3.1	12.0	19.3	19.1	14.9	48.3	48.3	27.
2	13.5	25.3	24.9	25.2	23.2	35.8	36.0	28.
3	19.8	21.8	25.9	26.2	26.4	10.5	10.8	20.
4	22.9	19.3	18.3	18.1	20.1	3.2	3.0	13.
5 +	40.6	21.5	11.6	11.4	15.3	2.2	2.0	10.
one earner household	80.2	66.8	64.9	64.8	54.9	74.7	74.9	66.
1985								
1	4.3	14.2	25.6	15.9	15.6	50.6	51.8	31.(
2	12.3	25.5	26.0	23.8	24.8	37.8	37.0	30.(
3	18.8	23.9	22.4	23.9	25.6	7.7	7.4	17.‹
4	22.0	23.6	19.1	25.3	21.0	2.5	2.6	13.(
5 +	42.5	12.8	6.9	11.1	12.8	1.4	1.2	7.:
one earner household	32.6	45.0	61.1	58.1	47.8	72.4	72.2	60.{

Source: Deutsches Institut fur Wirtschaftsforschung, Wochenbericht 51-52/86, Schriften zum Bericht der Transfer-Enquete-Kommissioi "Das Transfer-system in der Bundesrepublik Deutschland", Band Teilband 2.

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TRANSFORMATION OF THE FAMILY AND INCOME DISTRIBUTION

THE ITALIAN CASE

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INTRODUCTION - THE PLAN OF THE WORK

The aim of this research is both to analyse changes in the distribution of household income from 1975 to 1985 and to assess the relative importance of various factors of inequality in 1985, the last year for which there is data available.

The first aim, pursued in Chapter 1, is entirely devoted to a temporal comparison of the degree of inequality in distribution throughout the seventies and early eighties. Changes in inequality are discussed in relation to the action of market forces, to the state redistribution through public expenditure and revenues and to structural and behavioural changes in the household unit.

The second aim is pursued in Chapters 2 to 5. In the second chapter the main data concerning population, households and labour force has been supplied. This includes growth and composition of the Italian population, changes in size and composition of households, rates of activity, of employment and unemployment by sex, age and geographical area.

The third chapter concerns the life-cycle role and labour market relationships in the determination of income inequalities. The analysis is based on households of equal size. The importance of the employment status and the age of the head, of the number of worker-earners, and the composition of households (relative number of children and adults) in producing different levels of income, is discussed.

The fourth chapter deals with income differences related to the sector of work, to the socio-economic category and the level of education of the head of the household. The possibility of households being in specific parts of the income distribution, according to the socio-economic class and education of the head, is also studied.

The final chapter focuses on income inequalities arising from the geographical location of the household. The underlying causes of the lower average income in the Southern area is also analysed, with special attention being paid to the economic determinants of the high dependency ratios prevailing in the families of the South.

The paper is concluded by a statistical appendix reporting the main definitions used in the text and commenting on the characteristics and reliability of statistical data.

THE TEMPORAL COMPARISON OF THE DISTRIBUTION OF INCOME

1. STABILITY IN DISTRIBUTION AND SOCIAL REGULATION

1.1 The evolution of income inequality

In this research the inequality of family income has been calculated using the Gini coefficient for the five years between 1980 and 1985. Throughout this period the values of the coefficient show substantial stability in concentration (see Table 1.1 and Graph 1.1). Although we have no data on family income before 1980, we do possess data on family consumption. The Gini coefficients which have been estimated on the basis of this data show that throughout the period 1975 to 1984 family consumption remained stable (see Table 1.2 and Graph 1.2). This impression of stability is confirmed by the income distribution per decile between 1980 and 1985 and by the consumption distribution per quintile between 1975 and 1985[19] (see Tables 1.1, 1.2 and Graph 1.3). If we assume that there has been no significant change in saving distribution and consider consumption to be a reliable indicator of income, we may conclude that the distribution of family income in Italy has remained stable over a period of eleven years.

Before we analyse the causes of this stability in detail, it may be expedient to qualify the results of our analysis with two preliminary remarks.

Firstly, we have compared family incomes regardless of the size of the household itself. This is due to the fact that the Gini coefficients capture the inequalities in distribution of income which derive from differences in size between various households. Although the Gini coefficients for households of the same size would show lower values, these would still indicate that there is a very unequal distribution of income amongst Italian families.

Our second qualification concerns the interpretation we should give to this stability. Stability in the Gini coefficient does not imply that there is no mobility in distribution. It is compatible with upward and downward movements in the incomes of households of various types. The internal distribution may thus change several times without affecting the coefficient of concentration which is the aggregate degree of inequality.

These qualifications notwithstanding, the results of our analysis are rather unexpected. It is surprising that the level of equality in distribution has remained unaffected by a lengthy period of workers' unrest, the drive towards equality, and the growth of the welfare state. Nor has it been affected

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[19]. For a discussion on the significance of this result see Garonna (1984).

by the ensuing reaction from the employers, the de-industrialization process, or the growth of the informal economy.

There are several factors which affect the level of equality in distribution. However, from our results we seem to have to assumed that, contrary to common opinion, these factors have had no particular effect; or, alternatively, that due to an extraordinary conjunction of circumstances, the net result of these factors has been nil.

We have no ready made explanation for this anomaly. It is possible that what we have encountered is a mere statistical 'trick' produced by the fact that the results of the sample survey are unrepresentative. Those who share this view should turn to the following section. Nevertheless, we may suggest an hypothesis, a direction for enquiry, which could be fruitful.

The crucial point to focus upon is that the factors which act upon income distribution cannot be considered to be independent of one another. Firstly, shifts towards inequality which originate in one section of the socio-economic system elicit counter-tendencies, either in parts of the same section or in other areas altogether. Secondly, the actual participants in the conflict over income distribution attempt to react, rather than tacitly accept changes detrimental to themselves. Lastly, there are various shock-absorbers contained within the socio-economic system via legal and institutional procedures which are activated automatically whenever drastic changes in distribution occur.

There are many examples of this interaction between events and behaviours.

One such instance is the way in which the tendency towards the levelling of wages, regarded with suspicion by both the employers and certain groups of employees, has been opposed through the wage drift, which has resulted in the widening of wage differentials. Here we have a confrontation between protagonists within the same area of the socio-economic system (the market).

On the other hand, the likely effect on income distribution of mass redundancy in the industrial sector has been mitigated by either the creation or reinforcement of institutions which protect the income of the unemployed. This is an instance where tendencies towards inequality which operate in a section of the system (the market) activate counter-tendencies in another section (the state).

The drop in the level of income of the head of a particular type of household might induce other members of the household to look for jobs to integrate and stabilize the family income. Here, stability is the result of opposite tendencies in different sections of the system, with the family itself as the main social actor.

TABLE 1.1

PERCENTAGE OF INCOME OF EACH DECILE

decile

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	Gin
1980	2.87	4.84	5.71	6.96	8.00	9.28	10.63	12.33	14.99	24.39	0.
1981	2.64	4.73	6.07	6.98	8.18	9.43	10.79	12.64	15.23	23.31	0.3
1982	2.70	4.92	5.92	7.05	8.15	9.35	10.82	12.56	15.03	23.50	0.3
1983	2.97	5.13	6.30	7.26	8.36	9.71	11.10	13.03	15.17	20.95	0.3
1984	2.85	4.88	5.92	6.96	8.10	9.31	11.01	12.48	15.01	23.48	0.3
1985	2.90	4.74	5.89	6.98	8.06	9.54	10.84	12.65	14.93	23.49	0.3

Source: ISTAT

TABLE 1.2

PERCENTAGE OF EXPENDITURE OF EACH QUINTILE

quintile

Quintile	1975	1976	1977	1978	1979	1980	1981	1982	1983	198
1st	6.3	6.0	6.1	6.2	6.0	6.6	6.3	6.4	6.1	6.
(income)						(7.7)	(7.4)	(7.6)	(8.1)	(7.
2nd	12.0	11.7	11.7	11.8	11.5	11.8	11.6	11.6	11.5	11.
(income)						(12.7)	(13.1)	(13.0)	(13.6)	(12.
3rd	17.2	16.9	16.9	16.8	16.6	16.4	16.5	16.5	16.5	16.
(income)						(17.3)	(17.6)	(17.5)	(18.1)	(17.
4th	23.8	23.3	23.4	22.9	23.2	22.7	22.8	22.8	23.0	23.
(income)						(23.0)	(23.4)	(23.4)	(24.1)	(23.
5th	40.7	42.1	41.9	42.3	42.7	42.5	42.8	42.7	42.9	42.
(income)						(39.4)	(38.5)	(38.5)	(36.1)	(38.
Gini	0.34	0.35	0.35	0.35	0.36	0.35	0.36	0.35	0.35	0.

LORENTZ CURVE OF DISPOSABLE INCOME 1980-1985
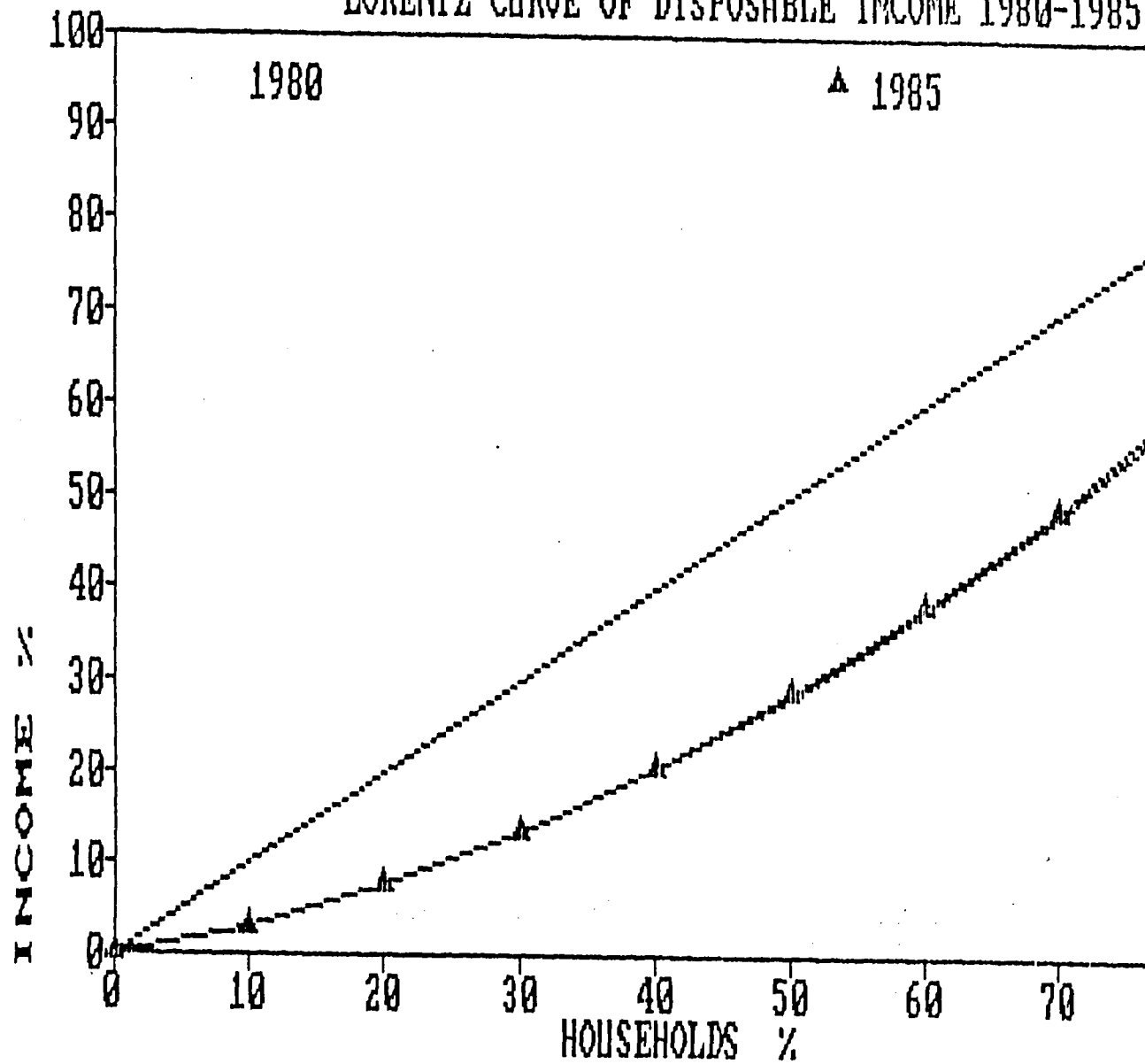
LORENTZ CURVE OF EXPENDITURE 1975-1980-1984

◇ 1980   □ 1975
  1984

EXPENDITURE %

HOUSEHOLD %

GRAPH 1.2

HOUSEHOLD INCO

1980–1985 (decili)

□ 1980   ▨ 1985

30 –	
25 –	
20 –	
15 –	
10 –	
5 –	
0 –	

1   2   3   4   5   6   7   8
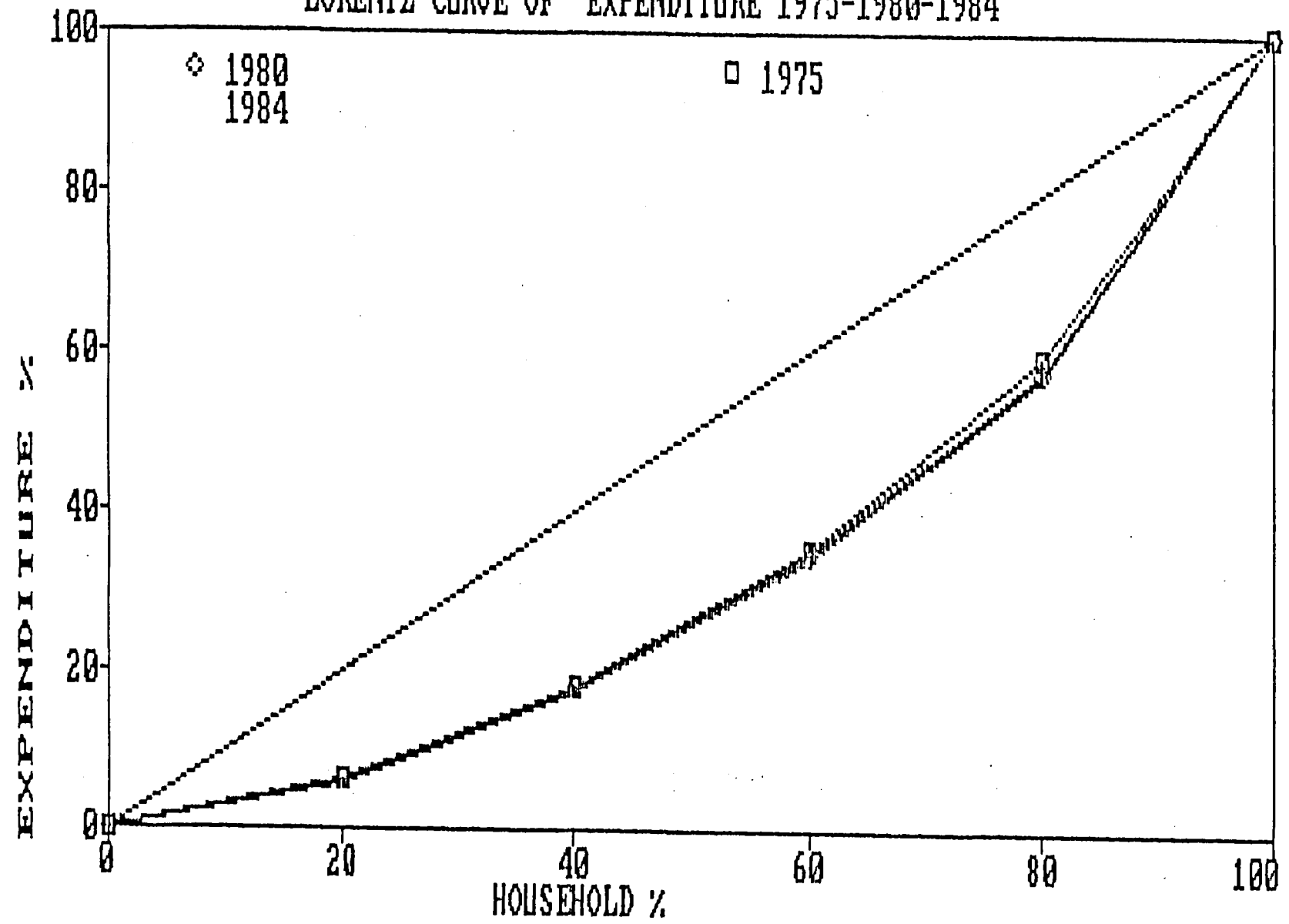
decile
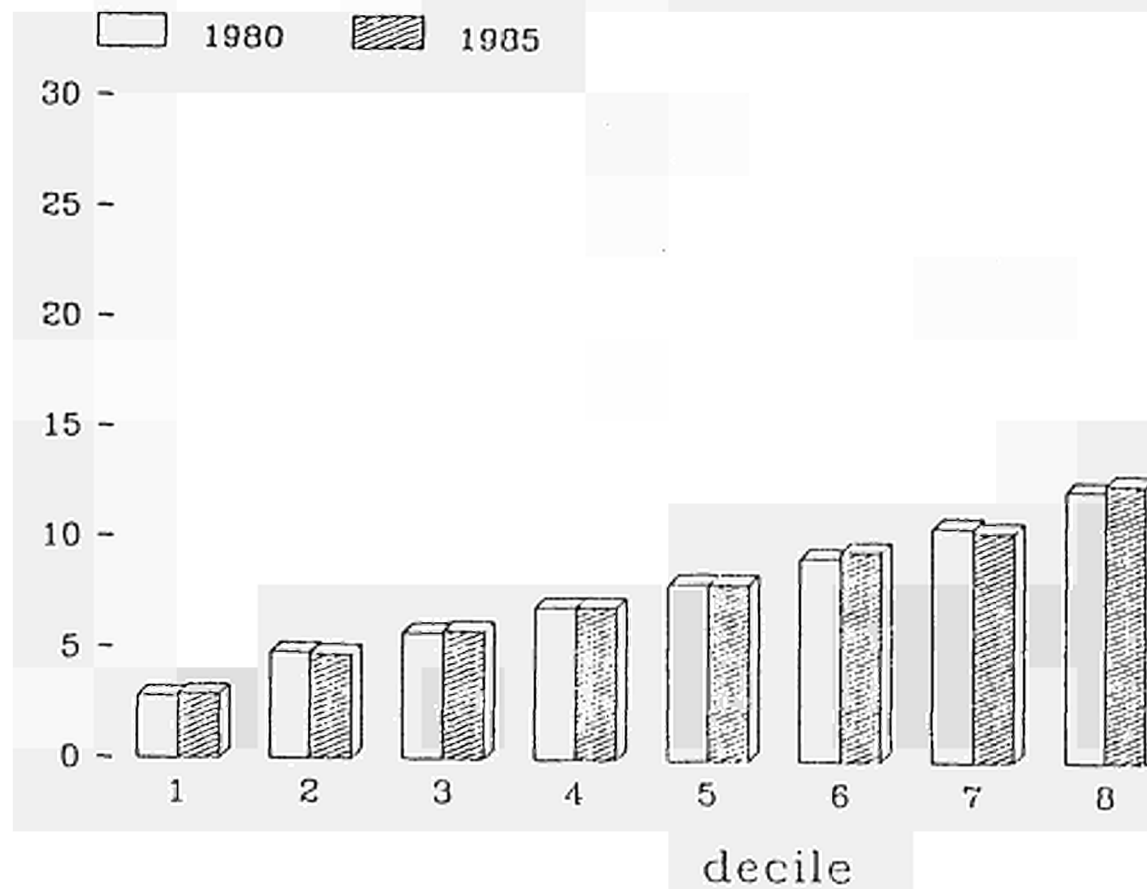
These instances, and we could cite many other examples, show that stability is the product of a regulatory system in which the market, the state, and the family all play fundamental roles.[20] Thus stability is not a random occurrence, but an indication of a long-term equilibrium in the balance of power of the various protagonists in the social scene.

To support our hypothesis, it would be interesting to follow the income progress from the primary phase of distribution through the State redistributive action to the eventual household's disposable income. Unfortunately, there are no statistical links between the various phases of the distributive processes since the bodies of data related to the wage system, the welfare state and household income are not homogeneous. Furthermore, in Italy the available data on family incomes makes no distinction between original income, gross income and disposable income. Without such data we cannot verify whether the stability of distribution we have encountered is the result of a "general" stability within the market, the state and household spheres of activity or whether it is the result of opposing tendencies in each of these areas.

In the following pages we will try to single out the factors which in the last fifteen years have affected the distribution of family income, distinguishing between the respective roles of the market, the state, and the family itself. However, the significance of these factors is not exactly quantifiable and therefore such conclusions may be open to doubt. Furthermore, the high level of interaction between the state, the market and the family makes it difficult to distinguish precisely between the respective influences. Thus the separate treatment of their roles should be considered as a mere rhetorical device of our exposition.

1.2 The Market

In Italy at the end of the sixties, the period of worker and union unrest initiated two main redistributive processes.

On the one hand, the share of wages and salaries increased as a percentage of both the gross domestic product and the industrial value-added. On the other hand, pay differentials amongst employees decreased. The levelling of pay was the result of both the egalitarian nature of the economic claims, and the peculiar mechanism of indexation based on a uniform treatment of all earnings (the 'punto unico di contingenza') and on the privileged safeguard of the lowest wages. These phenomena operated in an egalitarian direction throughout the seventies until their function was exhausted.

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[20]. See Lange-Regini (1987) on the dynamics of a system of regulation.

From the end of the seventies the situation changed radically. The share of the gross operating surplus in the national product increased, whilst there was an even greater increase in profits from manufacturing. At the peak of the cycle, in 1980, the share of profits in manufacturing was 3 points higher than at the equivalent point of the previous cycle in 1973; and the average for the eighties has remained constantly at a higher level than it was in the seventies.

Besides the increase in profits in the industrial sector, there was a shift of resources towards the financial capital, as a result of restrictive monetary policies based on real rates of interest, which were amongst the highest in the industrialized countries.

The move towards the levelling of pay ceased, partly due to the freezing of indexation and to the drop in inflation, and partly because the working class movement was crushed, and the progress of egalitarian values was put in check. Furthermore, whilst previous mechanisms of indexation guaranteed an automatic, generalised and uniform increase in nominal wages, thereby reducing the role of sectorial and local bargaining, nowadays, the level of wages is linked to the bargaining power of particular sectors of the working class, and therefore reflects the balance of power between the various social groups.

Since 1980, employment in the industrial sector, particularly in large companies, has fallen sharply, in line with what was already happening in other industrialized countries. At the same time, there has been an expansion of a secondary labour market, characterised by lower salaries, precarious conditions of employment, and lack of legal safeguards and trade union protection. This expansion results partly from the characteristics of a new labour force in which women and young people have a greatly increased presence; and it is also the result of the employers' interest in more flexible labour relations and in a more decentralized structure for the labour market.

It is difficult to say what kind of impact these transformations will have on the distribution of income. One has the impression that we live in a more segmented and corporative society, where more is left to the balance of power within both the market and the state: a less egalitarian society altogether.[21]

1.3 The State

It would be interesting to assess how effective the redistributive function of the state is, and, more particularly

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[21]. On the danger of an evolution towards a more unequal society see Salvati (1984) and Boyer (1986).

to see whether the general movement away from egalitarianism towards social segmentation has also affected the action of the state. Unfortunately, at present we do not have sufficient statistical information to draw a conclusive picture of the situation. The most recent study on the redistributive role of the state at the family level is by Sobbrio in 1974.[22] In his work Sobbrio maintained that, on the whole, the state performed an important redistributive function, since the Gini coefficient for the disposable income, 0.325, was significantly lower than that for the original income, 0.432. Expenditure in education and social transfers played the largest part in this redistributive process. Tax revenue had instead a limited role, for the egalitarian tendency of direct taxation was counterbalanced by the anti-egalitarian bias of indirect taxation. Income redistribution through social contributions had a moderately regressive effect.

The lack of recent studies and accurate quantitative estimates limit our analysis to the identification of those changes in the welfare system which might have affected income distribution, distinguishing the expenditure and the revenue sides.

Undoubtedly, public expenditure in Italy increased between 1971 and 1983, rising from 37% to 57.5% of the GDP. Within public expenditure itself, interest payments have increased more than proportionally. However, this cannot account for the entire increase in expenditure, which has affected all areas of welfare.

Education expenditure has increased in line with the GDP and has stabilised at 6%. Health expenditure jumped from 4% to 6% of GDP in the first half of the seventies and has remained at the same level. The income maintenance expenditure has had the highest increase, rising from 11% in 1970 to 16.6% in 1983. Pensions in particular account for the increase of expenditure in the latter group, since there has been a rise in both the monetary level of benefits and in the number of beneficiaries. Expenditure on pensions represents more than 80% of the total income maintenance expenditure, while it is more than 13% of the GDP. A more modest, but rapidly growing, share is represented by unemployment benefits, which have risen from 1.7% to 5% in the last fifteen years. Social assistance benefits and family income supplements, each of which represents 5% of income maintenance expenditure, have registered a modest increase in real terms, although their share of the total expenditure has decreased.

Both the size and direction of the distributive effects of these trends are difficult to assess, for the beneficiaries of public expenditure are numerous.[23]

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[22]. See Sobbrio(1979).

[23]. See Ferrera (1984), pp. 130-136.

TABLE 1.3

OUTLAYS OF GOVERNMENT 1973-1983

(Absolute value and % of GNP)

Years	direct taxes		indirect taxes		contri- butions		other		total	
1973	5398	(6.0)	8784	(9.8)	11341	(12.6)	2318	(2.6)	27841	(31.
1978	22264	(10.0)	22368	(10.1)	31081	(14.0)	5465	(2.5)	81178	(36.5
1983	83694	(15.5)	60242	(11.2)	87975	(16.4)	13324	(2.5)	245235	(45.8

RECEIPTS OF GOVERNMENT 1973-1983

(Absolute value and % of Gdp)

Years	consumption		investment		interest		transfers (household)		total	
1973	13907	(15.5)	2562	(2.9)	2269	(2.5)	13281	(14.8)	34116	(38.
1978	35257	(15.9)	6901	(3.1)	13038	(5.9)	39560	(17.8)	102832	(46.
1983	104372	(19.5)	22944	(4.3)	48898	(9.1)	109929	(20.5)	308713	(57.

Source: G. GHESSI, "La finanza pubblica in Italia in cifre 1965-1983

TABLE 1.4

INCOME DISTRIBUTION AND SIZE OF HOUSEHOLD 1985

(quintile)

size of the household	% of households	first quintile (A)	fourth quintile (B)	1985 B/A	(1980) B/A	Gini
1 component	17.9	484	1321	2.72	2.40	0.328
2 components	23.2	895	2103	2.34	2.35	> 2 components
3 components	22.2	1279	2592	2.03	2.20	
4 components	21.7	1353	2918	2.16	2.08	0.277
5 components	9.6	1370	3068	2.23	2.17	
>5 components	5.5	1501	3211	2.13	2.12	

Source: ISTAT

It is not easy to identify the particular beneficiaries of expenditure on public goods and this is an issue we cannot address here.

Even though we chose to limit our analysis to monetary transfers to households, there is no easy answer to the problem. There are transfer payments which are not intended to produce a `vertical' redistribution of income, and which consequently reach a composite group of beneficiaries. Other transfer payments have vertical redistributive effects which overlap with the redistributive effects between social categories, economic sectors, or geographical areas. Other items of transfer payments, due to special conditions of eligibility, result in a discriminatory treatment of households in similar economic conditions. Finally, similar kinds of transfer payments may result in highly discriminatory monetary treatments which do not correspond to effective differences in needs.

In order to reach conclusions, we shall consider those items of expenditure which have increased most during the last fifteen years.

Very likely, the large increase in pension expenditure has had a redistributive effect which is a move in an egalitarian

direction.[24]   The redistributive power of the pension system
lies in the existence of a ceiling which pensions cannot
supersede, in methods of calculation which are partially
independent of the past contributions of the beneficiary, and
above all in the charitable nature of certain pensions. These
include both social pensions, which are given to those who paid
no contribution during their working life, the integration to
the minimum level of contribution for those who did not reach
it, and disability pensions which, almost invariably, have the
function of subsidising and integrating the income of those in
poor conditions.   Expenditure on disability pensions in
particular has greatly increased and now represents 33% of the
total expenditure on pensions, and equals the amount spent on
old age pensions. However, these pensions, which are very low,
cannot guarantee the autonomy of the individual, who is
constrained to rely on family support. The beneficiaries are
mostly poor people, in the southern part of Italy, and the
criteria for entitlement has little to do with either the age
or the health of the beneficiaries themselves.

The increase in expenditure on the unemployed has also had
a redistributive effect, which has partly compensated for the
anti-egalitarian tendencies of the market. As in the previous
instance, there are various kinds of subsidies, which differ in
amount and criteria of entitlement, but which satisfy similar
kinds of need. On the one hand, there is an ordinary rather
meagre allowance to which workers mainly in agriculture and in
the Mezzogiorno are entitled. On the other hand, there is the
special treatment which the institution of the 'Cassa
integrazione guadagni' (Cig) reserves for the skilled manual
and non-manual workers, mainly concentrated in the industrial
sectors, who receive a sum linked to their last salary. In the
last fifteen years, the increase in unemployment expenditure is
almost entirely due to the Cig. The Cig covers two-thirds of
the salary of those workers who have been made partly or
temporarily redundant, either due to a crisis which may have
struck a single company or a whole sector, or as a consequence
of a process of restructuring and reorganisation. (Those who
claim the Cig officially maintain their jobs and consequently
are not classified as unemployed). In the seventies and in the
early eighties, this institution underwent several
modifications in order both to improve its efficiency, extend
its area of intervention into non-industrial sectors, and to
increase its individual periods of duration.[25] Its function is
to make the consequences of industrial reconversion, which has
caused a fall in employment in the sector of about 600 thousand
units in the first part of the eighties, more acceptable.

To conclude this discussion on expenditure we would like
to consider one further aspect of pensions and unemployment

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24.   On the characteristics of the Italian pension system
see Regonini (1984).

25.   See Saraceno (1985).

benefits.[26] Both systems comprise types of transfer payments which guarantee a real income, and payments which have a purely integrative function. The former are mostly diffused in the Centre and North of Italy, and the latter in the Mezzogiorno. This partly explains the phenomena which, as we shall discuss later, contributes to territorial inequalities in the distribution of family income. Firstly, the `impoverished' beneficiaries of the South must necessarily remain within the family; a fact which contributes to make families larger. Secondly, their contribution to family income is lower than the contribution of earners of analogous transfers in the North of Italy.

To move to revenues, from 1973 to 1983 the evolution of revenues was characterised by high growth and a change in composition (see Table 1.3). The fiscal reform of 1973 produced a rise in taxation, largely due to the increase in personal income tax (Irpef: imposta personale progressiva). Direct taxation increased from 6% to 15.5% of the GDP and from 19% to 34% of total revenues. This fundamental change in the Italian fiscal system has certainly had an egalitarian effect on the employees, both because the aliquots increased progressively and because the high inflation rates of the seventies and the ineffectiveness of the methods of correction used caused a fiscal drag effect.

However, the redistributive power of personal income tax is perceptibly reduced by both the high rate of fiscal fraud and the erosion of taxable income.[27] Tax fraud widens the gap between the self-employed, who may have frequent recourse to it, and the employees, for whom there is no opportunity for fraud. The erosion of taxable income is the way in which certain kinds of income, more likely to be found amongst wealthy families - share income, capital gains, land and property revenues - are either excluded from taxation, or are only partly assessed. Tax fraud and erosion provide a natural limit to the egalitarian action of personal income tax, the main redistributive power of which is exercised amongst employees.

We may note that the above considerations regard the redistributive effect of the tax system solely in relation to individual earners. Its redistributive effect on households certainly has a more distinctively egalitarian character, for there is a positive relationship between family income and the number of employed/earners in a household, and a similar positive relationship between the number of employed/earners and the level of taxation of a single household.

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26. See Garonna (1984) pp. 209-218.

27. See Longobardi (1984) on the redistributive effects of the fiscal system.

In conclusion, although the statistical information in our possession is rather scanty, we may say that throughout the seventies and eighties there was no breach of the general tendency of state intervention, and that the state maintained, and perhaps increased, its redistributive function.

One might ask whether there is any visible sign that the function of the state as a social regulator is about to change. In a recent study on the Italian situation the authors concluded that in several welfare sectors there had been an inversion OF the general tendency: the role of the state has been curtailed and its place progressively taken either by market forces or by self-help organisations.[28] These changes, which do not necessarily tend towards inequality, do not come from ambitious reforms; nor is it likely that they will be rationally programmed in the near future. They are rather the result of a piecemeal and 'incremental' process. R. Boyer has reached a similar conclusion in an Efer research on the transformations in wage structure in Europe. Indeed, he maintains that, in spite of violent ideological assaults, the European welfare states have been subject to marginal modifications rather than radical changes.[29]

1.4   The Family

If the family structure had not undergone a change over the last ten years, trends towards equality or inequality would derive exclusively from the direct action of the state and of the market forces. However, this is not the case, because the family has changed in size, composition and in its members' behaviour. In the last ten years two particular changes have influenced the degree of equality in distribution.

Firstly, we may consider the decrease in the average size of the household, partly due to the increase in the number of people who live alone. For reasons which will be better explained below, this strengthens the anti-egalitarian tendency, both because there is a high degree of concentration of income within this type of family and because the one person families are concentrated in the lower decili.

The Gini coefficient for one person families was 0.328 in 1985, a value which is higher than that calculated for larger families: 0.277 (see Table 1.4). In a study conducted in 1981 on expenditure distribution, Garonna produced similar results: the Gini coefficient for one person families was 0.344, for two person families: 0.327, and for other types of families 0.285: analyses of other countries have yielded similar results. Moreover, the bulk of the one person families consists of

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28.   See Lange-Regini (1984), p. 45.

29.   See Boyer (1986).

retired people who lie in the bottom half of distribution. A rise in their share of total households is likely to result in an increase in inequality.

Secondly, we should consider the increase in the number of people per household who are income earners. Although it is certain that this increase affects the position of single households on the income ladder, it is not clear whether it has an unequivocal effect on income distribution. To answer this question one would need accurate information on those families, classified according to their level of income, where the increase has been more relevant. For instance, it would certainly be interesting to establish whether the increase in married women who work - the new most important factor in the formation of the family income - has been more diffused amongst families in the upper or lower decili of income. The most likely hypothesis is that women's participation has mostly taken place in the households of different size. In the lower decili there are many small size households, which comprise retired people and singles, where the level of women's participation is minimal. In the upper decili, on the contrary, there are large size households, where women's participation is more likely to occur. A comparison between households of the same size would probably produce an opposite result both because there is higher women's participation in households belonging to low income social groups, and because pay differentials between women are narrower than those between men.

1.5 Conclusions

Until the end of the seventies both at the level of primary distribution and state redistribution, the prevalent tendency was towards equality. However, two phenomenons of which we are not in a position to judge the real influence, seem to have worked against this tendency: the change in family size and the increased presence of married women in the labour market.

If we do not consider the possibility that the data in our possession is utterly inadequate, there are two main hypothesis which explain the stability in distribution of family consumption shown by the Gini coefficient.

The first is that, in effect, the distribution of income has evolved along more egalitarian lines but that this tendency has altered the saving rather than the consumption distribution. The second is that there has actually been a substantial stability in income distribution. In the latter case we must conclude that changes in relation to the power between classes and social groups which have taken place at political, cultural and social levels have not resulted in any change in the distribution of income. The redistributive effects originated in the market place, and for the state action have therefore been less momentous than it is usually

thought, and certainly small enough that they have been successfully opposed by counter tendencies in both the structure and in the acquired behaviour of the family unit.

The beginnings of the eighties have, instead, been characterised by the substantial weakening of the working class position, a reduction in the contractual power of the manual workers and the diminished political and cultural influence of both the unions and the parties of the left. Nonetheless, these changes have made very little difference in income distribution unlike the changes in the seventies.

The picture of the society which emerges from our considerations is one where there is a high degree of stability in the midst of deep processes of structural and cultural transformations; a society in which changes in relation to power between the classes are limited and, above all, have a limited effect on income distribution; a society whose formal and informal mechanisms of regulation have guaranteed the stability in distribution for a period as long as ten years.

CAUSES OF INEQUALITY IN INCOME DISTRIBUTION

2. POPULATION, FAMILIES AND LABOUR MARKET

2.1 Demographic trends

The object of this chapter is to set out the main data on the evolution and composition of the Italian population and households and on the changes in the labour market during the past ten years. This data is fundamental to the analysis of the causes of inequality which will be developed in the following three chapters.

In 1973 the Italian population was 54,650,000. In 1987 it was over 57 million. During the last twenty years in Italy the demographic trend has been characterised by a steady fall in the birth rate (see Table 2.1). While in the fifties and the sixties the average birth rate was 18 per 1,000, in 1984 it was 10.3. The birth rate is now only fractionally higher than the death rate and in 1984 the difference between the two resulted in a natural population growth of about 50 thousand units - a number which is not significantly affected by the net migratory flows (see Table 2.2).

The falling trend of the birth rate is evident throughout the national territory. However, the respective starting points of the Centre/Northern and Southern parts of Italy were different, and while the birth rate is still higher than the death rate in the Mezzogiorno, it is lower in the Centre and the North. In the latter regions, therefore, the present situation is characterised by a population loss of 60 thousand a year; while in the Mezzogiorno, the population increases at

an average of more than 110 thousand a year. During the first two decades after the war, the internal and external migratory flows represented a safety-valve for the Mezzogiorno. During the sixties these flows drastically declined, and today they have a very limited effect on the growth of the southern population.[30]

TABLE 2.1

NATURAL GROWTH OF POPULATION

(1952-1984)

	Mezzogiorno			Centre/North			Italy		
Years	births	deaths	diff.	births	deaths	diff.	births	deaths	diff.
1952-61	23.6	9.0	14.6	14.7	9.9	4.8	18.0	9.5	8.
1962-74	21.6	8.7	12.9	16.0	10.4	5.6	18.0	9.8	8.
1975-84	16.4	8.8	7.8	10.5	10.5	0.0	12.6	9.8	2.
1983	14.2	8.6	5.6	8.7	10.8	-1.9	10.6	9.9	0.
1984	13.8	8.1	5.8	8.4	10.1	-1.7	10.3	9.4	1.
				(absolute	values)				
1952-61	4,308	1,647	2,661	4,609	3,118	1,491	8,917	4,766	4,15
1962-74	5,132	2,128	3,004	7,007	4,617	2,390	12,139	6,745	5,39
1975-84	3,085	1,659	1,426	3,716	3,787	-71	6,801	5,446	1,35
1983	281	170	111	319	391	-72	600	561	3
1984	278	162	116	308	370	-62	586	532	5

Source: SVIMEZ, Rapporto sull'economia del Mezzogiorno.

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[30]. See Siracusano-Tresoldi-Zen (1986).

These demographic trends have influenced both the growth of population and its age distribution (see Table 2.3). In Italy, as in other countries, the increase in the number of people over 65 and the steady decrease in the population under 14 has resulted in what is normally called the `ageing' of population. The difference between the Centre/Northern part of Italy and the South is also reflected in the age structure of their respective populations. In the Centre/North the percentage of the population above 65 is higher than in the South: 13.9% against 10.8%; and, more significantly, the population under 14 is a considerably lower percentage: 17.2% against 23.8%. All considered, the proportion of the population of working age is lower in the South than in the Centre/North: 65.4% against 68.9% when we include the 14-18 age group, and 56.1% against 61.2% when we exclude it.

2.2   The structure of the households

The most reliable data on the number of households is from the 1981 census (see Table 2.4). According to the census, in Italy there were 18,632,619 families and a population of 56,076,496. In comparison with 1971, the rate of increase in households has been higher than that of the population, with a consequent decline in the average size from 3.3 to 3.0 members per household. This fall is mainly due to the increase in the number of one person families, which were 12.9% of the total and are now 17.8%; and a parallel decrease in the number of large families, which dropped from 21.5% of the total to only 14.9%. Families with two, three, or four members have maintained a constant position throughout the last ten years (see Graph 2.1).

The territorial difference between the Centre/North and the Mezzogiorno is reflected in the size of the households. Large households are more frequent in the South, and there are fewer small size households. In the Mezzogiorno, the average size is 3.32 members against 2.89 in the Centre/North.

2.3   Trends in the labour market

The increase in the rate of economically active women is the single most important change in the Italian labour market in the last fifteen years. Although the percentage of the working population has fallen, the activity rate for the period 1970 to 1985 increased from 36.5% to 41%. This increase is the result of both the de facto stability of the male activity rate, and the steady increase in the female activity rate, which rose from 19.2% in 1970 to 28.1% in 1985 (see Graphs 2.2 and 2.3). The Graphs show that the activity rate of the central age groups, from 20 to 50, has increased the most. The rate peaks in the group between 20 and 24, is stable until 30, and subsequently shows a steady decline with the increase in age. The curve for the male rate of activity has a reverse U shape, and reaches its peak in the 30 to 50 age group, where the rate almost reaches 100%.

TABLE 2.2

NET MIGRATION FLOWS BY GEOGRAPHICAL AREA 1952-1985

Periods	Mezzogiorno			Centre-North			Italy	
	internal migra- tions	migra- tions abroad	total	internal migra- tions	migra- tions abroad	total	migra- tions abroad	tota
1952-61	-915	-1,099	-2,014	915	-490	425	-1,589	1,58
1962-74	-1,644	-587	-2,231	1,644	-51	1,593	-638	-63
1975-84	-307	92	-215	307	28	335	120	12
1983	7	2	9	-7	1	-6	3	
1984	4	-	4	-4	-	-4	-	

Source: Malfatti (1977); Rapporto sull'economia del Mezzogiorno

TABLE 2.3

AGE DISTRIBUTION OF POPULATION

Census	0-4	0-14	15-44	45-54	55-64	65-74	>74	Average
1951	9.1	17.0	45.9	11.4	8.4	5.7	2.5	32.0
1961	8.3	16.2	43.5	12.8	9.6	6.3	3.3	33.7
1971	8.2	16.3	41.8	11.5	10.9	7.4	3.9	34.8
1981	5.9	15.7	42.4	12.7	10.3	8.5	4.7	36.3
(1985)	5.3	14.2	43.3	12.7	11.7	7.5	5.9	n.a.

Source: Census, ISTAT estimate for 1985.

TABLE 2.4

HOUSEHOLDS BY SIZE

(Census 1971 and 1981-Estimate ISTAT 1985)

	1 comp.	2 comp.	3 comp.	4 comp.	5 comp.	>5 comp.	Tota

1971

	1 comp.	2 comp.	3 comp.	4 comp.	5 comp.	>5 comp.	Tota
%	12.9	22.0	22.4	21.2	11.8	9.7	10C
House-holds	2,061,977	3,509,530	3,582,072	3,390,154	1,892,890	1,544,549	15,981 (B)
Compo-nents	2,061,977	7,019,060	10,746,216	13,560,616	9,464,450	10,637,300	53,489 (A

A/B = 3.3

1981

	1 comp.	2 comp.	3 comp.	4 comp.	5 comp.	>5 comp.	Tota
%	17.8	23.6	22.2	21.5	9.5	5.4	100
House-holds	3,323,456	4,402,980	4,117,217	4,008,008	1,773,621	1,007,055	18,632 (B)
Compo-nents	3,323,456	8,805,960	12,351,651	16,032,032	8,868,105	6,695,292	56,076 (A)

A/B = 3.0

1985

	1 comp.	2 comp.	3 comp.	4 comp.	5 comp.	>5 comp.	Tota
%	17.9	23.2	22.2	21.7	9.6	5.5	100
House-holds	3,392,716	4,397,264	4,207,726	4,112,958	1,819,557	1,042,454	18,953 (B)
Compo-nents	3,392,716	8,794,528	12,623,180	16,451,833	9,097,788	6,842,300	57,202 (A)

A/B = 3.0

Household size
1985

2 comp
23.0%

1 comp
18.0%

3 comp
22.0%

> 5 comp
5.0%

5 comp
10.0%

4 comp
22.0%
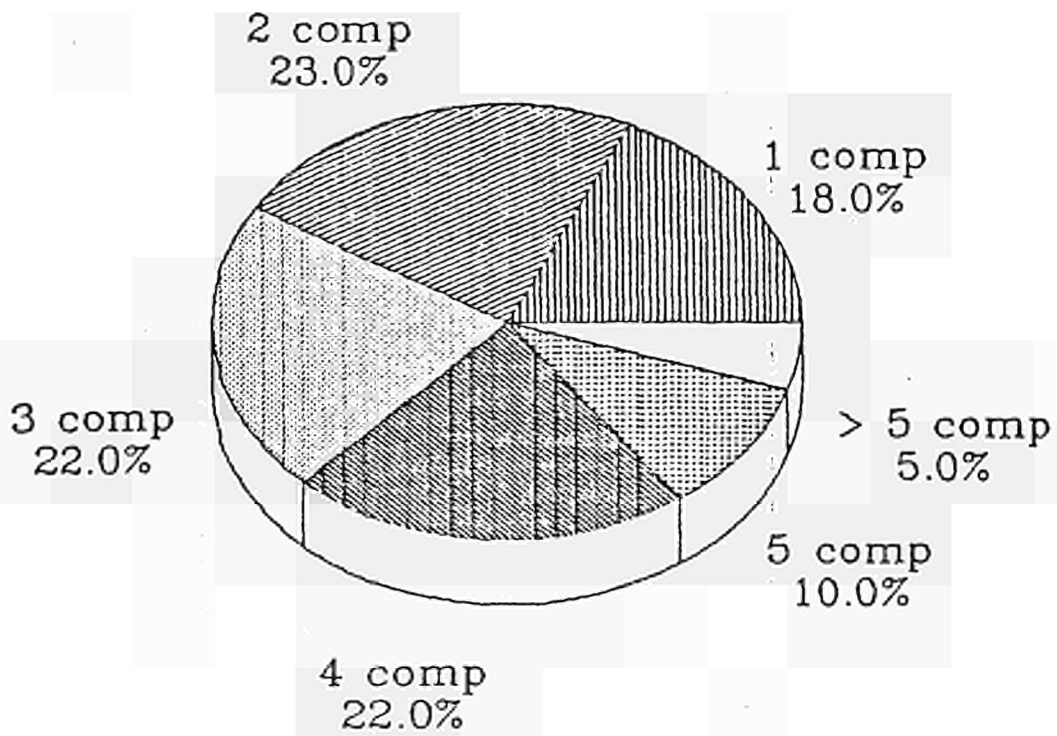
Graph 2.2

ACTIVITY RATES BY SEX AND GEOGRAFICAL AREA

men
and
women

men

women
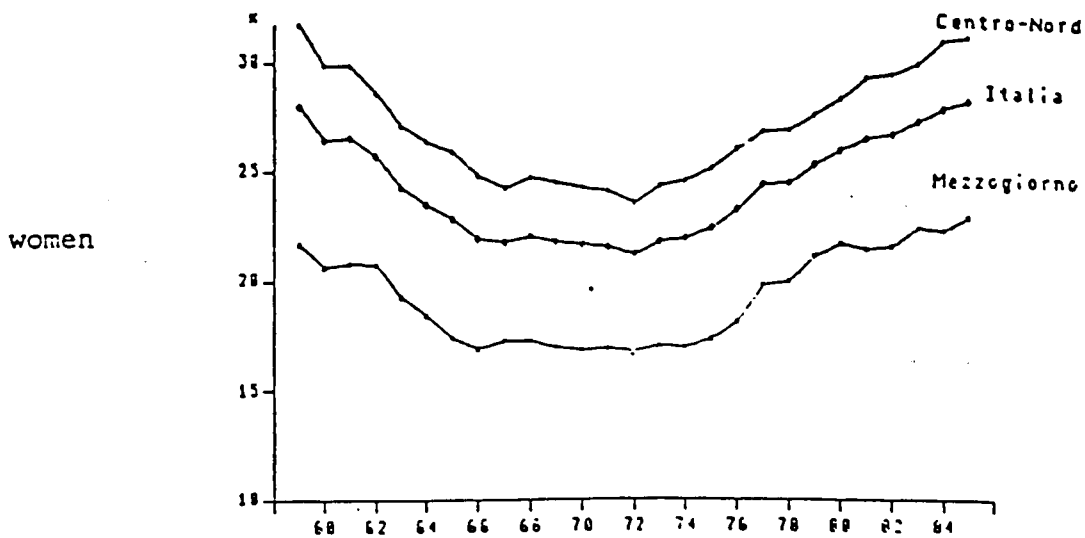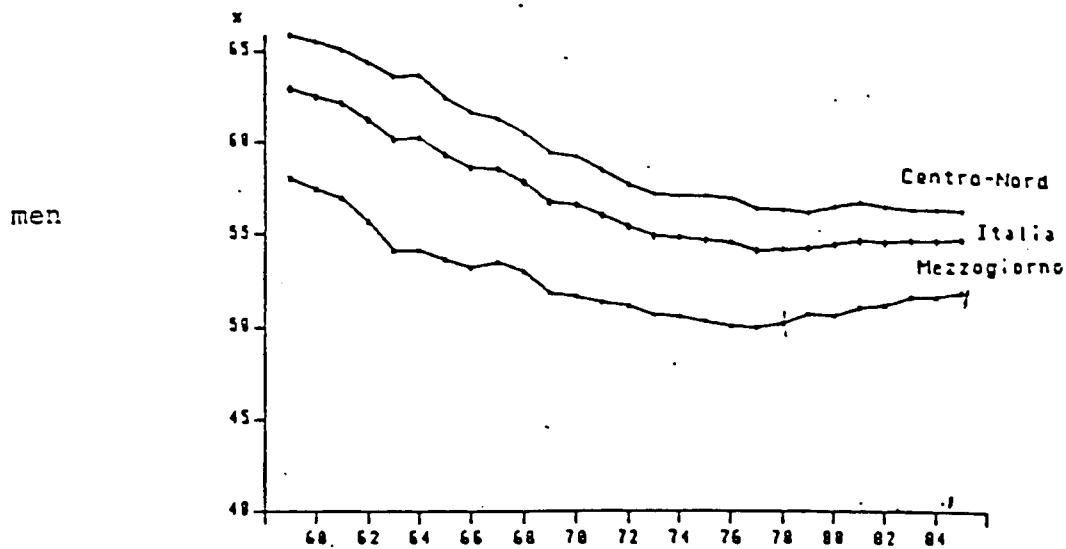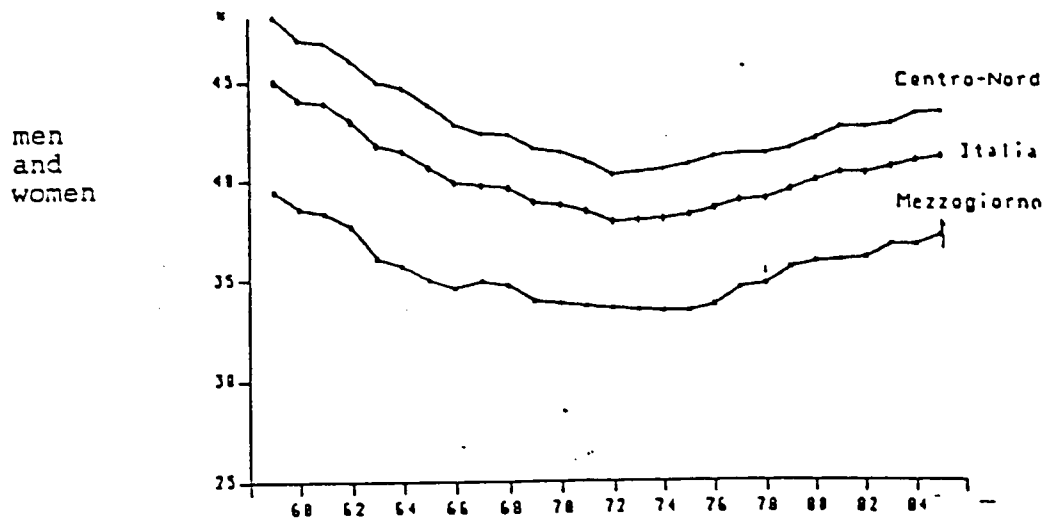
Graph 2.3

ACTIVITY RATES BY AGE AND GEOGRAFICAL AREA

men

women

131
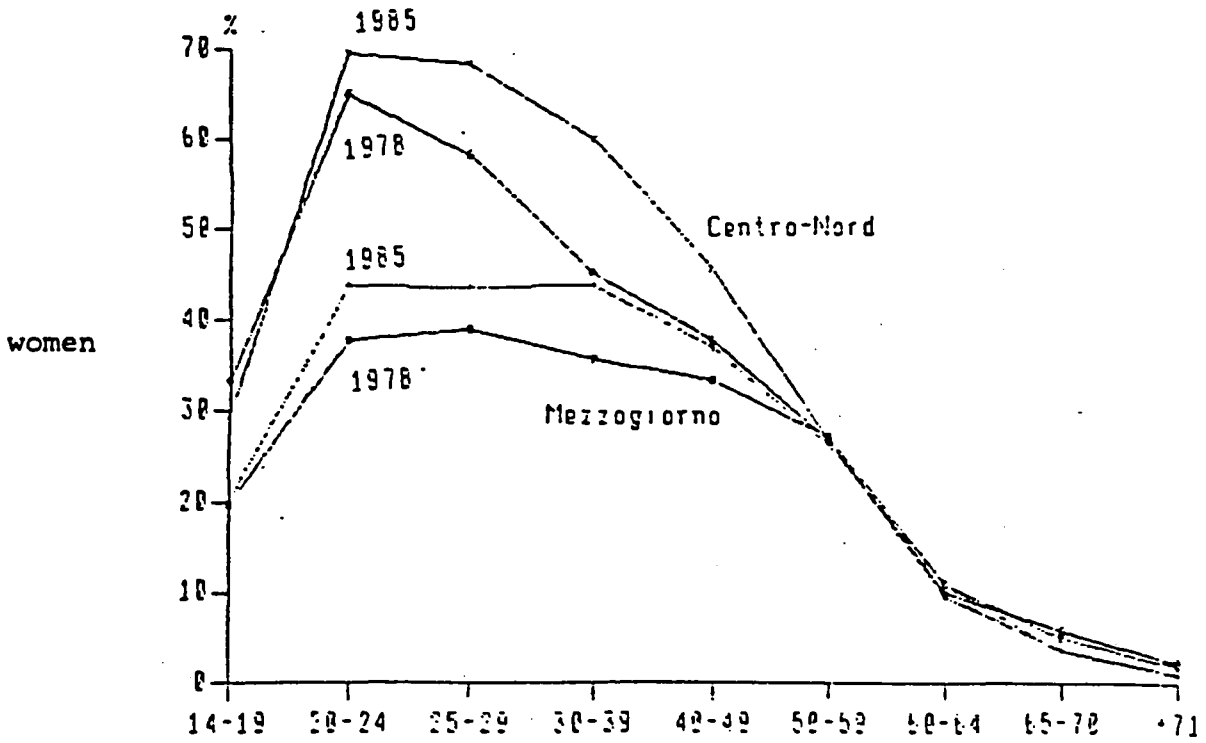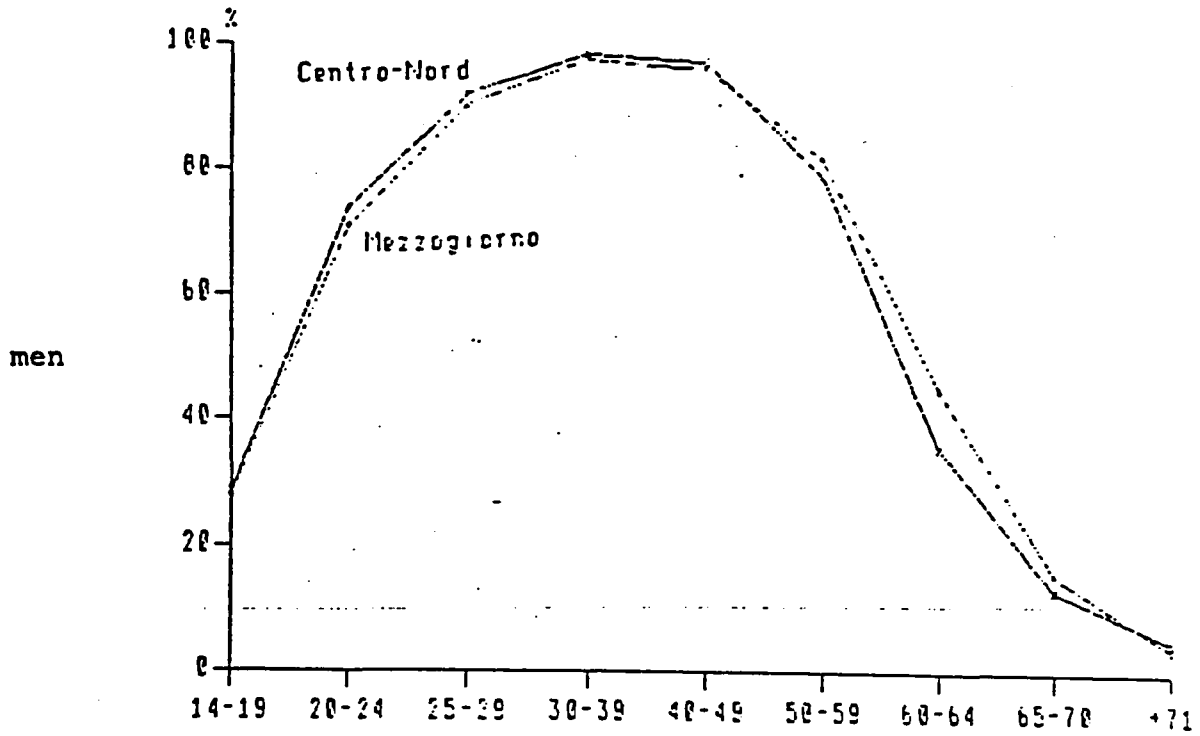
TABLE 2.5

POPULATION AND LABOUR FORCE COMPOSITION BY SEX
(.000)

LABOUR FORCE

(PEOPLE SEARCHING OCCUPATION)

Year	Employed	Unem- ployed	First job	Other	Total	Total	non- active	Total popula- tion
MEN								
1970	13,888	211	196	–	407	14,295	11,845	26,140
1980	14,038	112	417	179	708	14,746	12,339	27,085
1985	13,986	277	597	180	1,054	15,040	12,454	27,493
WOMEN								
1970	5,068	68	147	–	208	5,276	22,070	27,346
1980	6,449	99	465	412	976	7,425	21,147	28,572
1985	6,756	204	653	560	1,418	8,173	20,832	29,005
MEN and WOMEN								
1970	18,956	279	343	–	615	19,571	33,915	53,468
1980	20,487	211	882	591	1,684	22,171	33,486	55,657
1985	20,742	482	1,250	740	2,471	23,213	33,285	56,498

Year	Labour force Population	Employed Population	Searching occ. Labour force	Non-active Population
MEN				
1970	.546	.531	.028	.454
1980	.544	.518	.048	.456
1985	.547	.508	.070	.453
WOMEN				
1970	.192	.185	.039	.808
1980	.259	.225	.131	.741
1985	.281	.232	.173	.719
MEN and WOMEN				
1970	.365	.354	.031	.635
1980	.398	.368	.076	.602
1985	.410	.367	.106	.590

Source: ISTAT

TABLE 2.6

LABOUR FORCE COMPOSITION BY AGE AND GEOGRAPHICAL AREA-1985
(.000)

Men and Women

Labour force

		People searching occupation				Searching occupation
Age	Employed	Unemployed	first job and other	Total	TOTAL	Labour Force

Mezzogiorno

14-19	232	11	253	264	496	53.2
20-24	527	40	351	391	918	42.6
25-29	790	39	172	211	1,001	21.1
30-59	4,519	92	152	244	4,763	5.1
> 60	382	1	3	4	386	1.0
Total	6,450	183	931	1,114	7,564	14.7

Centre-North

14-19	556	35	350	385	941	40.9
20-24	1,460	93	344	437	1,897	23.3
25-29	1,716	49	127	176	1,892	9.3
30-59	9,823	119	231	350	10,173	3.4
> 60	737	2	7	9	746	1.2
Total	14,292	298	1,059	1,357	15,649	8.7

Italy

14-19	788	46	603	649	1,437	45.2
20-24	1,987	133	695	828	2,815	29.4
25-29	2,506	88	299	387	2,893	13.4
30-59	14,342	211	383	594	14,936	4.0
> 60	1,119	3	10	13	1,132	1.1
Total	20,742	481	1,990	2,471	23,213	10.6

Source: ISTAT

TABLE 2.7

LABOUR FORCE COMPOSITION BY AGE AND GEOGRAPHICAL AREA-1985
(.000)

MEN

Age	Employed	Unemployed	First job and other	total	TOTAL	searching occupation Labour Force
		Labour Force People searching occupation				
Mezzogiorno						
14-19	166	8	117	125	291	43.0
20-24	357	26	166'	192	549	35.0
25-29	560	24	68	92	652	14.1
30-59	3,280	62	44	106	3,386	3.1
> 60	300	1	3	4	304	1.3
Total	4,663	121	398	519	5,182	10.0
Centre-North						
14-19	307	17	144	161	468	34.4
20-24	808	40	142	182	990	18.4
25-29	999	24	41	65	1,064	6.1
30-59	6,652	72	49	121	6,773	1.8
> 60	557	2	4	6	563	1.2
Total	9,323	155	380	535	9,858	5.4
Italy						
14-19	473	25	261	286	759	37.7
20-24	1,165	66	308	374	1,539	24.3
25-29	1,559	48	109	157	1,716	9.1
30-59	9,932	134	93	227	10,159	2.2
> 60	857	3	7	10	867	1.2
Total	13,986	276	778	1,054	15,040	7.0

Source: ISTAT

TABLE 2.8

LABOUR FORCE COMPOSITION BY AGE AND GEOGRAPHICAL AREA-1985
(.000)

WOMEN

| Age | Employed | Unemployed | Labour Force People searching occupation | | | Searching occupation |
			First job and other	Total	TOTAL	Labour Force
Mezzogiorno						
14-19	66	3	136	139	205	67.8
20-24	170	14	185	199	369	53.9
25-29	230	15	104	119	349	34.1
30-59	1,239	30	108	138	1,377	10.0
> 60	82	–	–	–	82	–
Total	1,787	62	533	595	2,382	25.0
Centre-North						
14-19	249	18	206	224	473	47.4
20-24	652	53	202	255	907	28.1
25-29	717	25	86	111	828	13.4
30-59	3,171	47	182	229	3,400	6.7
> 60	180	–	3	3	183	1.6
Total	4,969	143	679	822	5,791	14.2
Italy						
14-19	315	21	342	363	678	53.5
20-24	822	67	387	454	1,276	35.6
25-29	947	40	190	230	1,177	19.5
30-59	4,410	77	290	367	4,777	7.7
> 60	262	–	3	3	265	1.1
Total	6.756	205	1,212	1,417	8,173	17.3

Source: ISTAT

In Italy from 1970 to 1985 employment increased by 1,785,000 units, which is almost equivalent to the registered increase in the level of female employment: 1,688,000 (see Table 2.5). At the same time, the rate of female unemployment increased from 3.9% to 17.3%, remaining at a much higher level than male unemployment, which increased from 2.8% to 7% over the same period. Amongst both men and women, the age group which has been worst hit by unemployment is that between 14 and 24, with a rate of 33%. Unemployment has only marginally affected the male adult individual with a full-time job, and whose income is fundamental to the family economy. It has hit mainly women and young people who may be looking for their first job, or for temporary and part-time jobs, and whose income may form a vital contribution to the family budget.

These trends in the labour market are reflected across the whole country; but there are great gaps in the female rate of activity and unemployment between the Centre/North and the Mezzogiorno (see Tables 2.6, 2.7, and 2.8). In the Centre/North the female rate of activity has reached 31%, while in the Mezzogiorno it is only 23%. Furthermore, during the last few years the gap has tended to increase. Differences between the respective male activity rates are less marked: the rate is 55% for the Centre/North and 51% in the South.

The main difference between the two areas is the presence of women in the labour market, and consequently the contribution of women to family income. While in the Central/Northern part of Italy the most common family model is one where women are wage earners, in the South the prevalent model is that where women's sole occupation is housework. Probably there are both cultural and socio-economic reasons at the root of this situation. However, we tend to believe that the main reason lies in the low level of demand for labour.

The lack of job opportunities and the unfavourable conditions, which are often attached to a job, reduces the activity rate and/or produces higher unemployment amongst women and the young. The poor conditions of work, both in a quantitative and qualitative sense, are also reflected in lower pensions and, consequently, in the lack of autonomy amongst old people. This increases the probability that the elderly, the young, and women remain with the same family for a longer period, a fact which also increases the average size of the households, and the house workload necessary to satisfy the needs of each single member. The lack of adequate social services worsens the female condition; they are accorded sole charge of the domestic responsibilities. This further `discourages' women from entering the labour market; and since the lack of jobs outside home eliminates one possible disincentive against procreation, it also results in a lot more children.

As further proof of this circularity of cause and effect, we may observe that while in the Mezzogiorno the activity rate

is lower, the rate of unemployment is higher than in the Centre/North. The unemployment rates in the Centre/North are 5.4%, 14.2% and 8.7%, for men, women and the overall level respectively. In the Mezzogiorno they are: 10%, 25%, and 14.7%. The larger gaps between the two sets of rates are those relating to women and the young, while the gap is narrower for men in the central age groups. Both in the Centre/North and the South the income of the head of household is guaranteed whatever the differences in the level of income and the quality of job; but the contribution of other members to the family income is considerably lower in the South.

Finally, we can link the observations advanced on the Mezzogiorno, in relation to both the demographic trends and the labour market. A lower share of the population of working age, a lower activity rate, and a higher rate of unemployment contribute to a higher dependency ratio. At macro-economic level the dependency ratio is taken to be the ratio between the total population and people in work, which, if considered from the point of view of income, shows the average number of people supported on the income received by a single employed person. Lastly, the composition of the population not of working age varies from the Centre/North, to the South. While in the northern part of the country there is a relatively high proportion of old people, who receive an income, in the southern part there is a relatively high proportion of children, who have no income at all. Income distribution at geographical level is therefore affected by differences in both the dependency ratio and the age structure of the population.

3.   LIFE-CYCLE AND LABOUR MARKET

   3.1 The choice of the unit of analysis

The last ten years have been characterised by important changes in the relationship between several social protagonists and the labour market. The number of those who, for reasons of age, have given up working and live on transfer payments has increased in both absolute and relative terms. Similarly, from either a cultural choice or an economic need, more women within the working age group prefer the labour market to solely housework. Finally, there has been an increase in the number of young and not so young people who, although actively looking for work, spend prolonged periods out of work.

These tendencies have affected the family through the increase in the number of members who contribute to the family income and in the diversification of the sources of income. The object of this chapter is to evaluate how important the changes in family structure are for the distribution of income. We will examine six different types of household, from the one person household to those with more than 5 members - with reference to sex, age and profession of the household head - to regional areas, number of workers and number of income earners per household. For each of these classifications we give the

percentage share in relation to the total number of households of the same type and the monthly disposable income for the years 1980 and 1985 (see Tables 3.1 to 3.6).

The choice of households of similar size to the unit used in our analysis, prevents spurious comparisons between incomes of households of different sizes, whose respective needs are manifestly different. At the same time, the compensatory function of the family notwithstanding, we can pinpoint conditions of objective disadvantage which derive from a specific status. We can thus avoid the thorny problem of which is the best indicator of equality of distribution: household income, per capita income, or equivalent income. (See Table 3.7 for a comparison of households and per capita income amongst households of different size.)[31]

In theory it would be preferable to take households of similar size and composition as the unit of our analysis. Unfortunately, the statistical information in our possession is inadequate, and we must therefore start from the disputable premise that households of similar size have comparable levels of need. Another limitation of the data in our possession is that it mostly refers to the head of the household; a fact which reflects an ideal type of family where the head is the sole generator of income, and where the inequality in distribution depends entirely on the head of the household's level of income. The lack of information on the other members of the household and on their individual level of income certainly limits our analysis.

3.2   On being old and living alone

According to the 1971 census there were approximately two million one person families, which represented 12.9% of the total number of households. The 1981 census shows an increase of 1,200,000 families and a new percentage level of 17.8% of the total of all families.

Two factors have contributed to the increase in this type of family: on the one hand, a change in social habits has resulted in the rapid increase in those who live alone: young people who want to live independently from their families and 'single' adults. On the other hand, one person families are the product of the ageing population, together with the longer life-span of women, who are usually younger than their husbands. Within the group of one person families it is possible to distinguish two very different kinds. The first, and more numerous, consists of the elderly, generally a woman, living on her own pension. The second consists of people aged

[31]. On this problem see the Introduction to this Report. For a criticism on the use of equivalence scales see Garonna (1984).

between about 30 and 55, generally men, whose income derives from employment.

The gap between these two kinds of one person families is considerable. The constituents of the former group (elderly female pensioner) have an income which is only half that of the members of the latter group (relatively young, male, economically active). Thus, within the one person families there are three elements of advantage/disadvantage reinforcing each other: to be male rather than female, young rather than old, economically active rather than in retirement. Table 3.1 shows that the differences which result from each of these polarities are very considerable.

3.3 The couple: retired, employed and bi-employed

The importance of age, and of the position in the labour market in income distribution, is confirmed by the analysis of the household with two members. The percentage of this type of household over the total number of households has not increased much between the last two censuses: in 1971 it was 22% of the total, 3.5 million in absolute numbers; by 1981 it had reached 4.4 million or 23.6%.

We may concentrate our analysis on three very different kinds of households which comprise the vast majority of households of this size. The first consists of an elderly couple, where the household head is a pensioner. This type accounts for more than half of the total number of households of this size. The second is a couple of working age, where the head of the household is the only wage earner. This kind represents 33% of the total. The third kind consists of two adults who are both wage earners. This represents 16% of the total.

These three kinds of household have been listed in ascending order in relation to their disposable income. Household's whose head is in employment have an income 25% higher than households where the head is a pensioner; in turn, households comprising two employed people have an income 40% higher than families where only one person is in employment. This confirms that elderly pensioners are at the bottom of the income pyramid. But is also confirms the quantitative importance of female employment, in relation to the increase in family income.

In the case of a one person family, it is irrelevant whether or not the head of this type of household is young. This may appear strange when one considers what has already been said about the precariousness of employment amongst the young, and on the large proportion of unemployment amongst people under the age of 30. The explanation is to be found in the simple fact that the great majority of the young who are in this position remain in the family. When the young are either without a job or with a precarious one, he/she postpones the

creation of his/her own family unit and uses the protection' of the family of origin.[32]

It has been argued that the fact that there is no link between unemployment and poverty is to be explained in the observation that unemployment does not affect the household head, on whom the family income depends, but the young person who can count on the support of the family.[33] This consideration, which tends to undermine the gravity of unemployment is, however, to be qualified by more careful thought; if it is true that unemployment does not directly affect the household head, the reverse is also true; in fact, young people who are potential household heads are prevented from becoming actual head of households by unemployment.

The absence of a clear gap between the income of the young and not so young heads, in the case of one person families may, therefore, be simply explained by the consideration that only those young people who have a job which guarantees full financial autonomy leave the original household.

In the households with two members the absence of such a gap can be explained both by the delay in the formation of the new unit, and by the high percentage of women in employment. The level of female employment is particularly high until 30 and it is not affected by marriage. Moreover, a high percentage of young women have full time jobs. It is only after children are born that women either start working part-time or abandon the labour market altogether.[34] Amongst younger couples it is therefore likely that the family income is made up of a relatively low wage of the household head and a quite significant contribution on the part of the wife.

3.4 On the 'protected' elderly

According to the census of 1981, there were about 4.1 million households of three people; 600,000 more than in 1971. Their percentage over the total of all households has remained stable at about 22%. The average of the household head is obviously decreasing; 14.9% under 30; 43.5% between 31 and 50; 31.9% between 51 and 65; and 9.8% over 65.

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32. The role of the family also remains crucial in those instances when the young separates from the original household. For a research study on this subject see Bugarini (2983).

33. On the structure of Italian unemployment see Accornero-Carmignani (2986) and Accornero (2987).

34. See Irer (1983) and OECD (1984).

TABLE 3.1

ONE-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 Lira)

	Total	Head of Household Male	Female	<30	31-50	Age 51-65	>65	>51	Areas Cen/North	Mezz
1980 %	13.9	33.0	67.0	5.8	14.6	28.4	51.2	79.6	71.2	28.8
1985	17.9	33.0	67.0	8.9	16.1	27.0	48.0	75.0	70.3	29.7
1989 Y	464	575	409	702	667	492	363	--	498	380
1985	984	1181	888	1321	1394	1036	755	--	1047	835

	Job	Pension	Other	Employees per family 0	1	2	>2	Earners per family 1	2	>2
1980 %	26.5	68.4	5.2	73.3	26.7	-	-	98.7	-	-
1985	27.9	64.6	7.4	72.0	28.0	-	-	97.2	-	-
1980 Y	687	366	613	383	686	-	-	459	-	-
1985	1434	783	1044	807	1441	-	-	985	-	-

Source: ISTAT

TABLE 3.2

TWO-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 Lira)

	Total	Head of Household Male	Female	<30	31-50	Age 51-65	>65	>51	Areas Cen/North	Mezz
1980 %	23.3	82.4	17.6	9.6	18.3	33.8	38.3	72.1	71.2	28.8
1985	23.2	82.7	17.3	9.5	19.2	35.3	37.2	72.5	72.2	27.8
1980 Y	390	391	385	463	480	407	315	--	417	323
1985	794	793	802	931	962	806	666	--	854	640

	Job	Pension	Other	Employees per family 0	1	2	>2	Earners per family 1	2	>2
1980 %	43.8	52.4	3.8	46.5	37.3	16.2	-	42.2	57.5	-
1985	39.5	55.8	4.7	51.6	32.6	15.8	-	39.7	59.7	-
1980 Y	475	316	425	306	418	568	-	371	404	-
1985	964	673	815	651	837	1175	-	723	844	-

Source: ISTAT

TABLE 3.3

THREE-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 Lira)

	Total	Head of household		<30	31-50	Age 51-65	>65	>51	Areas Cen/North	Mezz
		Male	Female							
1980 %	22.6	92.8	7.2	16.4	42.2	29.9	11.6	41.5	73.6	26.4
1985	22.2	92.2	7.8	14.9	43.5	31.9	9.8	41.7	71.8	28.2
1980 Y	347	348	333	338	350	353	329	--	368	287
1985	684	687	650	599	735	685	647	--	737	549
1980 %	76.9	20.6	2.6	7.7	54.7	34.7	2.9	42.6	41.9	15.0
1985	74.9	22.2	2.9	10.7	51.3	35.1	2.0	41.4	44.4	13.6
1980 Y	354	323	295	260	318	402	444	301	383	376
1985	706	625	557	495	620	815	927	580	758	770

Source: ISTAT

TABLE 3.4

FOUR-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 Lira)

	Total	Head of household Male	Female	<30	31-50	Age 51-65	>65	>51	Area Cen/North	Mezz
1980 %	21.6	96.7	3.3	6.5	65.5	23.2	4.8	28.0	67.5	32.5
1985	21.7	97.1	2.9	5.5	66.5	24.7	3.3	28.0	65.0	35.0
1980 Y	278	278	274	236	275	298	295	--	301	230
1985	564	564	551	420	541	621	616	--	616	468

	Job	Pension	Other	Employees per family 0	1	2	>2	Earners per family 1	1	>2
1980 %	89.4	9.2	1.4	2.4	56.3	33.8	7.5	50.6	33.9	15.3
1985	87.8	10.2	2.0	3.9	51.6	37.4	7.0	46.4	38.0	15.5
1980 Y	277	283	324	235	248	309	376	243	302	342
1985	561	597	512	412	491	645	757	473	619	703

Source: ISTAT

TABLE 3.5

FIVE-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 lira)

	Total	Head of household Male	Female	<30	31-50	Age 52-65	>65	>51	Areas Cen/North	Mezz
1980 %	11.1	96.3	3.7	3.7	64.5	25.7	6.1	31.8	57.4	42.6
1985	9.6	96.9	3.1	2.4	63.2	29.9	4.5	34.4	54.3	45.7
1980 Y	231	231	229	196	216	256	268	--	255	198
1985	472	471	500	310	441	520	570	--	536	397

	Job	Pensions	Other	Employees per family 0	1	2	>2	Earners per family 1	2	>2
1980 %	87.2	11.4	1.3	2.2	52.4	30.9	14.5	42.6	30.4	26.7
1985	87.0	11.2	1.8	2.9	49.9	33.2	14.0	42.3	32.1	25.2
1980 Y	230	238	259	183	202	252	296	193	243	278
1985	468	517	407	341	399	537	609	384	509	575

Source: ISTAT

TABLE 3.6

MORE THAN FIVE-PERSON HOUSEHOLD 1980-1985
INCOME BY DIFFERENT CRITERIA

(% and per-capita income .000 lira)

	Total	Head of household Male	Female	<30	31-50	Age 51-65	>65	>51	Areas Cen/North	Mezz
1980 %	7.4	97.3	2.7	1.3	59.4	30.1	9.2	39.3	46.6	53.4
1985	5.5	97.5	2.5	1.7	70.3	32.6	5.4	38.0	44.3	55.7
1980 Y	186	187	156	145	175	192	205	--	227	152
1985	385	386	335	341	343	410	489	--	460	326

	Job	Pension	Other	Employees per family 0	1	2	>2	Earners per family 1	2	>2
1980 %	83.0	14.9	2.1	2.0	38.5	32.0	27.4	26.6	26.8	46.5
1985	83.5	13.7	2.7	3.8	42.9	28.5	24.8	30.4	25.5	43.9
1980 Y	187	183	168	131	158	184	228	152	169	214
1985	384	397	344	282	331	405	465	322	365	438

Source: ISTAT

TABLE 3.7

HOUSEHOLD AND PER-CAPITA INCOME (Y) 1985

Size of the household	(.000 Lira)		(index)	
	Household Y	Per-capita Y	Household Y	Per-Capita Y
1 component	984	984	100.0	100.0
2 components	1589	794	161.5	80.6
3 components	2051	684	208.4	69.6
4 components	2256	564	229.3	57.3
5 components	2361	472	239.9	47.9
>5 components	2541	385	258.2	39.1

Source: ISTAT

Research into the income of this type of household usually distinguishes between a group of households with three adult members (56%), and a group with two adults and a child (44%). The diffusion of these two groups is directly linked to the household head's age; as he grows older the household with three adults takes the place of the couple with a child.

When we compare this type of household with the previous two, we notice that the negative effect which being old and retired had on the relative income position of the household has partly disappeared. The income gap is 14% when we compare the over 65 age group with that between 31 and 50. The income difference between pensioners and people in employment is only 4%. The explanation for such a small gap is that in many households where the head is a pensioner, there is another member who is economically active. When we consider that the households with pensioners as head are 22% of the total number of households with three members, while the households with no employed person are only 10.7%, we may draw the conclusion that the difference in percentage (11.5%) represents those households with an economically active member. Within this group, the standard of living of the elderly pensioner is 'protected' by part of the family income coming from the employment of one of the family members, possibly an adult son or daughter. On the other hand, the households with no economically active member experience a difficult financial situation. They usually comprise elderly people with one or even two pensions, though usually small, and a young person

without a job. The gap between their average income and the average income of the whole group of households with three members is about 40%.

Three considerations emerge from this data. Firstly, that to be retired and elderly is an objective condition of economic disadvantage. In considering small families, it is evident that the elderly person, the elderly couple, and the elderly couple with an unemployed daughter/son can be found in the lower half of the income scale. It may be true, as Gorrieri has maintained in his report on poverty, that 'the equation between being elderly - single or in a couple - and being poor lacks foundation;[35] yet, even though the equation is not straightforward, the passage to the elderly status represents a worsening of his income condition. This brings into question the legitimacy of the values of a society which penalises people who are in objectively weak conditions.

The second consideration concerns the kind of protection guaranteed by the family. As we have already seen with young people who are either unemployed or in precarious jobs, the low income of the elderly person within the family tends to be 'hidden' by the cumulative effect of the more than one income receivers. The group of households with a pensioner as the head is not necessarily penalised if it has more than three members. Society appears to delegate to the family the function of looking after the elderly, although one should add that the autonomy and dignity of elderly people may be put under threat within the family institution itself.

Thirdly, within the three member households, the young age of the household head is a disadvantage, because the birth of the first child forces the woman either to abandon the labour market or to reduce the amount of her working hours. When not sustained by the woman's contribution, the low level of wages of the young head results in an income gap of about 23%, between the group of households where the head is under 30 years old and the group where he is between 31 and 50.

3.5   On being many with few in work

The larger the household, the greater the opportunity to increase the family income through the cumulative effect of more than one income. In larger families, the number of earners is a major factor of inequality in the distribution of income.

In 1971, the number of households with four members was 3,390,000; while in 1981, it was 4,008,000. In ten years the proportion of the total number of households has changed little; from 21.2% to 21.5%. In comparison with the previous types, households with four members are more diffused in the

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[35]. See Gorrieri (1985), pp. 44-46.

South. Furthermore, there is a predominance of household heads in the 31 to 50 age bracket. The demographic reasons for this difference between large and small families is self-evident: it is unlikely that a man under thirty has more than one child, and very probably by the age of 65 his siblings have already formed their own family units.

The type of household under examination comprises 41% of households with two adults and two children, 39% with four adults, and 20% in one of the two intermediate situations: either three adults and one child, or one adult and three children. The composition of this kind of household is a sort of snapshot taken at a particular point in the natural progress of one single household: from the couple with two children, to a mature couple with two adult sons and/or daughters who have not yet formed a family of their own.

Differences in the number of employed people per household depend on the 'composition' of the household (linked to the life-cycle of the family on which the relative numbers of adults and children depend) and on the working position of both the married woman and the sons and daughters in households of similar composition.

We can confine the differences in income to those stated above. There is an income gap of 30% between households with only one person employed and those with two people employed. The latter group is, in turn, 17% worse off than the group where more than two people work. The gaps arising from a different number of earners are in line with those produced by differences in the number of people in work.

The income gaps, according to the age group of the household head, reflect the level of probability of a second or third income to bolster the head's income. Young couples with two children are at a disadvantage, for it is unlikely that the wife will substantially supplement the husband's income. The older the household head, the more advantageous the conditions of the household, because the cumulative effect of more than one income is more frequently due to the presence of an adult son/daughter in work.

3.6 On large families in the South

The study of households with five or more members strengthens the importance of the dependency ratio as a factor of inequality. (The dependency ratio at a micro-economic level is defined as the ratio between the number of household earners and the number of those who are in employment. In a few cases it may be useful to consider the ratio between members and income earners).

In this type of household there is a higher probability that other incomes will supplement the head's income; but the eventual lack of additional support from other members may

prove to be detrimental to the fulfillment of the family's needs.

During the last fifteen years, households with five or more people have declined, both in number and in proportion to the total number of families. Yet they still represent 28% of the total population. In comparison with previous types of households we find that there is a concentration of this type of household in the Mezzogiorno. In 1985, Southern households were 33% of the total, but amongst the households with five and more than five members, they represented respectively 45.7% and 55.7%. It is likely that such a concentration of large households in the South will increase as a result of the present demographic trends. The question of the dependency ratio has, therefore, a particular value in geographical terms.

In households with five members the income gap between those with one person in employment, and those with two is 35%; while the gap between those with two or more persons in employment is 13%. In households with more than five members the gaps are 22% and 15% respectively.

As the household head gets older - up to the age of retirement - his income increases per se and the family income is likely to be boosted by other incomes from employed members of the household, or from transfer earners.

3.7 The income contribution of working women

To conclude this section, it may be useful to summarise our findings on the relationship between income and the presence of the various members of the household in the labour market.

The increase in female participation in the labour market has been an important and positive factor, which has changed the traditional division of roles within the family and often modified the hierarchical nature of the couple relationship. This is particularly true in Italy, where the starting point was low and the catholic ideology of the woman/mother/wife is deeply rooted.

We must now evaluate the exact degree to which this increased participation has been transformed into financial support, thereby altering the traditional equation between the head of the household's income and the family income overall. Our evaluation is only tentative, for it is based on `fragile' and incomplete data. Table 3.8 summarises the data on the household with one, and more than two people in employment.

TABLE 3.8

% INCREASE IN HOUSEHOLD INCOME BY NUMBER OF EMPLOYED

| | Number of Employed | | | Household Size |
| | 1 | 2 | >2 | |
Years	% increase in income			
1980	36	--		2
1985	40	--		
1980	26	10		3
1985	31	14		
1980	25	22		4
1985	31	17		
1980	25	17		5
1985	35	13		
1980	16	24		> 5
1985	22	15		

The relative gap between households with one or two persons employed is about 30%. In theory, the size of this gap is due to either a low second income or to the concentration of secondary employment amongst those households where the first income is rather low. Both hypotheses seem to have some foundation. The first can easily be taken for granted, since we know that many women work part-time, and that they are usually confined to the bottom half of the job scale which is unskilled and badly paid. The other hypothesis is supported by the uniformly descending curve of the female rate of activity by age. This data shows that as the household head's income rises with age women's presence in the labour market decreases.

It is also plausible to assume that female employment is relatively higher amongst the lower social groups, where a second income is required to satisfy primary needs.

If an inverse relationship between head's income and women's work is well founded, we may conclude that women's contribution to the family income is higher - though how much higher we cannot say - than the 30% which divides households with one person in employment from those with two. The wife's income continues to take second place to the husband's, but has now assumed greater importance as a contribution to the family income. Although the division of roles within the family has not been overcome, a too strict division of areas of skill

between the sexes is in the process of disappearing. Women's position at the centre of the system of social reproduction is not in question, but their life is made up of less 'family' and more 'market'.

The income gap between households with two and those with more than two people in employment is about 15%, where the third income usually comes from young people in employment. It would be useful to distinguish between working class households, where young people often have permanent jobs, and households of non-manual workers and professional people, where the young have temporary jobs and their contribution to the family income is irrelevant. This, and other similar pieces of information, could shed light on the groups of households in which the contribution of the members is important.

From the aggregate data in our possession, we can only conclude that young people's contribution to the family income is fairly modest even if it may become more important in those instances where the head has a particularly low income and the household income is made up of various small inputs from different sources.[36]

4. INEQUALITY AND SOCIAL CLASSES

As we have already seen, although the head of the household is not the only earner, he still maintains a central role in the household. Since his position within the socio-economic system is essential for the determination of his income, we will refer to economic sectors and socio-professional categories as partial indicators of his income position. We possess data on family income, but not on the household head's income alone. This means that the head's income cannot be analysed as a single factor of inequality in distribution. The income gap which we will analyse will therefore include the contributions of the other members of the household.

Table 4.1 suggests a first distinction between employees and self-employed. The gaps between these two categories of income is not very wide: 15% when we compare family income, 13% when we compare per capita income. Amongst employees, the higher incomes are in the service sector (both public and private), while the lower incomes are in agriculture. The gaps between the service and the industrial sector are small. But the gaps between the industrial sector and agriculture are very

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[36]. A similar conclusion has been reached by NEgri-Santagata (1984) as a result of research on an urban area.

substantial: 30% per household and 45% per capita. The backward conditions of large agricultural areas in the Mezzogiorno, where the standards of life depend on both public allowances and the domestic economy, is probably the main single cause for such a gap.

Amongst the self-employed the higher incomes are those in the industrial sector, followed by services and agriculture. Here the gaps between services and industry are small, and between the former and agriculture, though smaller than the ones in the previous group, they are still significant, especially in relation to per capita income.

As the values of the Gini coefficients for the two groups show, internal inequality is more evident amongst the self-employed than amongst employees.

However, the income gaps within single sectors are more significant than those between one sector and another. If we compare the average family income of the higher 50% and the lower 50% of each single sector, we find gaps that span from 100% (in industry) to 130% (in agriculture). A similar comparison of per capita income on the basis of data compiled by the Banca d'Italia indicates that the gaps are even wider.[1] These internal gaps show that within sectors skills and length of service are important factors in determining the range of wages, but they also signal the inadequacy of the division in sectors traditionally used by the ISTAT in its computations.

The socio-professional group of the household head is certainly more relevant than the sector of occupation in any assessment of the changes in the level of income (see Table 4.2).

In 1985 the incomes of working class families were 22% lower than those of non-manual workers and the self-employed, and 71% lower than employers and professional people. Since the average size of household per socio-professional group varies, the gap in per capita income between working class households and the self-employed is slightly lower at 19%; while there is an

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[1]. These results are drawn from Targetti-Lenti (1984), pp.180-189.

increase in the gaps between working class households and non-manual workers (34%) and employers and professional people (75%).

The size of the gaps between the various socio-professional groups is confirmed by the sample survey of the Banca d'Italia, which provides a more sophisticated breakdown of the data (see Table 4.3).[2] Managers, employers and professional people are at the top of the income scale, while at the bottom, in reverse order, we find the employees in agriculture, self-employed in agriculture and manual workers of other sectors. The division according to the socio-professional qualification of the head of the household is not entirely satisfactory here, because the gaps within each single group are often wider than those between one group and another.

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[2]. See Targetti-Lenti (1984), pp. 189-202.

TABLE 4.1

HOUSEHOLD AND PER-CAPITA INCOME
BY STATUS OF EMPLOYMENT OF THE HEAD

(1985, .000 Lira)

	average	country	industry	other	white collar	blue collar	Gini
Employees							
%	71.2	5.5	39.7	54.8	43.5	56.5	0.249
Household Y	2028	1563	2010	2089	2261	1850	
Per-capita Y	584	403	558	627	688	515	
					Employers	Self Employed	
Other							
%	28.8	20.6	18.0	61.4	16.1	83.9	0.281
Household Y	2420	2081	2601	2480	3168	2276	
Per-capita Y	658	540	679	694	903	614	

Source: ISTAT

TABLE 4.2

PER CAPITA INCOME BY SOCIO-PROFESSIONAL
CATEGORY OF THE HEAD OF HOUSEHOLD 1985

(.000 Lira)

	Employees	Blue Collar	White Collar	Other	Employer	Self-Employed	Gini
%	71.2	30.9	40.3	28.8	4.6	24.2	
Y	585(A)	513	688	658(B)	903	614	0.261

B/A = .889

North

%	42.5			16.8			
Y	691(a)			773(a)			

Mezzogiorno   b/a = .652   b/a = .671

%	45.6			19.1			
Y	451(b)			519(b)			

Source: ISTAT

TABLE 4.3

AVERAGE LEVEL OF INDIVIDUAL AND HOUSEHOLD INCOME
BY SOCIO-ECONOMIC CATEGORY AND EMPLOYMENT STATUS

(Indices and % - Total employed 1982)

	Individual	%	Household	%
EMPLOYERS	92	(80.4)	94	(56)
Managers	240	(1.9)	184	(2.4)
White collars	103	(36.9)	104	(24.5)
Workers in agriculture	44	(3.7)	59	(2.3)
Workers in other sectors	79	(37.9)	80	(26.8)
OTHERS	133	(19.6)	116	(19.4)
Agriculture	92	(3.8)	88	(4.3)
Other sectors	130	(11.1)	114	(10.6)
Employers professional	173	(4.7)	148	(4.5)
TOTAL	100	100	100	100

A   Average income of an employed (.000 Lira) = 11,329.

B   Average yearly individual income of an unoccupied
     (.000 Lira) = 5,246.

A/B = 216.

A   Average yearly household income head employed
     (.000 Lira) = 19,367.

B   Average yearly household income of an unoccupied head
     (.000 Lira) = 12,258.

A/B = 158.

Source: Bank of Italy (Targetti Lenti, 1982).

From this data we can make a hierarchical classification of incomes which is reflected in the particular position which each social group has in the income scale (see Table 4.4).

Managers, employers and professional people are almost exclusively in the upper fifth of the income scale. Self-employed and non-manual workers are in the middle and upper-middle part of the scale, even though the self-employed are often in the bottom decili, since several sub-groups have precarious jobs. And lastly, manual workers, who are definitely in the middle of the scale, though they occasionally, and significantly, appear both in the upper and lower fifth of the scale.

So far the picture is a rather complex one. It shows that there are substantial differences in income between social classes, but it also shows that individuals from different social classes can be found scattered across the entire spectrum of the income scale. This picture concurs with what we have said about the transformation of the family function in the process of income production. Vertical divisions, determined by the class to which the head of the household belongs, are traversed by horizontal divisions produced by the participation of other members in the formation of the family income. Important groups of population, which are characterised by a head with an average sized income may be pushed into the bottom or higher levels of the income scale, either by favourable or unfavourable conditions, such as the relative number of employed per household and the size of the household itself. Those groups characterised by the high income level of their head remain in the upper fifth, even though they may have an unfavourable dependency ratio.

In order to substantiate this hypothesis we would need to have comparative statistical information on family income, the number of employed and the socio-professional category. Lacking such data, we are obliged to use data compiled by Garonna for the year 1981.

One part of this statistical information considers the relative distribution of households per number of employed people.[3] Working class households are those with a higher proportion of households with three or more people in employment. This is not surprising, for it is obvious that households in modest economic circumstances need as many contributors as possible to the family income.

A second piece of statistical information, which is not as self-evident as the previous one, shows that, although there is a difference in the number of those in employment between large working class families, and similarly sized middle class families, this does not apply to small households. This would suggest that it is economic need, made more pressing by the

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[3]. See Garonna (1984). p. 85 Table 6.4.

size of the household, which forces the members of working class families to generate other incomes, either through the work of the wife or through that of the young son/daughter, who, in middle class households, rarely contributes to the family income. When there is no accumulation of income, large working class families are forced towards the poverty line, and their level of income drops near to that of pensioners and the unemployed. In fact, the proportion of working class households which are in the low income bracket becomes significant in the group of large size households.[4]

Similar observations could be advanced on the relationship between income distribution and qualification of the head of the household, a factor which is obviously connected to his social position. Naturally, the gaps in per capita income which are shown in Table 4.5 are wide, but they are not as wide as might be expected. In particular, the gaps between the lower three qualification levels are minimal, both in the North and the Mezzogiorno, while the earnings of the household heads with academic or high school qualifications are definitely higher.

This relative levelling of incomes reflects the lack of co-ordination between the characteristics of the labour demand and the educational curricula, and the function the educational system has played in disguising youth unemployment. However, it is possible that the absence of clear differences in income is also the result of the weakening of the linear relationship between social position and qualification of the household head, level of his income, and the family income. Yet, this hypothesis cannot be fully verified for lack of adequate statistical information.

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[4]. See Garonna (1984), p. 90 Table 6.6.

TABLE 4.4

PERCENTAGE OF HOUSEHOLDS IN EACH QUINTILE
BY SOCIO-PROFESSIONAL CATEGORY OF THE
HEAD OF HOUSEHOLD 1985

(Quintile)

	% Total	1st	2nd	3rd	4th	5th
EMPLOYED	62.5	21.7	60.1	71.1	79.3	80.7
OTHER	18.0	5.2	13.7	17.7	22.7	31.1
Employers	2.9	.2	1.2	1.8	3.6	7.7
Self-employed	15.1	5.0	12.4	15.9	19.1	23.4
EMPLOYEES	44.5	16.5	46.4	53.4	56.6	49.5
White Collar	19.3	3.4	15.3	21.0	28.2	29.0
Blue Collar	25.1	13.1	31.1	32.4	28.4	20.6

Source: ISTAT

TABLE 4.5

PERCENTAGE COMPOSITION AND PER-CAPITA INCOME
BY EDUCATION LEVEL OF THE HEAD OF HOUSEHOLD 1980-1985

	No Instruction	Primary	Secondary	High	University
1980 %	12.3	48.5	21.4	13.5	4.2
North	8.6	51.0	22.8	13.8	3.8
Mezzogiorno	18.3	47.0	18.5	12.0	4.3
1985 %	14.1	42.4	23.8	14.8	4.8
North	9.8	45.9	25.3	14.8	4.1
Mezzogiorno	21.1	39.7	21.1	13.4	4.8
1980 %	237	273	302	363	437
North	295	321	352	411	485
Mezzogiorno	198	207	233	306	390
1985 %	499	563	615	754	909
North	607	659	716	858	1037
Mezzogiorno	417	427	478	611	733

Source: ISTAT

5.   THE NORTH SOUTH GAP: TOWARDS A NEW DUALISM

The `questione meridionale' (Southern question) is certainly not new. It started with the national unification process, and after more than a century does not seem to have been resolved, though its forms and manifestations have radically changed. Even now the Mezzogiorno is the main element of structural weakness in the Italian economy, and the gap in economic, social, and civil terms between the Centre/North of Italy and the South remains wide.

The under-developed condition of the South has some bearing on our analysis, for it accentuates the gaps between family income, income per capita and living standards of the respective populations in the Centre/North and the South.

If we take the northern regions as a point of reference, the gap in the average income per household is 22%, while the gap in income per capita is 36% (see Table 5.1). These gaps refer to the disposable income, without considering the redistributive process fostered by the state, which in a number of regions reduces the inequalities in the GDP by up to 50%.[5]

One of the most important factors on inequality is the high dependency ratio which characterises the Mezzogiorno (see Tables 5.2 and 5.3 for a strong inverse relationship between dependency ratios and disposable income per capita at regional level). Its relevance, which we have already discussed at a macro-economic level, can obviously be ascertained in the case of the household unit.

In the North, households with only one recipient of income represent 45.5%, while in the Mezzogiorno they increase noticeably to 61.2%. Those with two recipients of income are respectively 40.6% and 29.7%. Finally, those with more than two recipients are 13.4% against only 8%. The average size of households for each of the three groups are 2.24, 2.99, and 4.33 in the North; and 3.06, 3.44, and 5.07 in the South (see Table 5.4). In conclusion, households in the Mezzogiorno have fewer recipients of income, and in general support more members.

We may reach similar conclusions if we use the same criteria when we analyse the data relating to those in employment per household. While households without employed members are proportionally similar in the two geographical areas, this is not true for households with one employed

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[5].   For an interesting and complete, though dated, assessment of the State redistribution at regional level, see Forte-Bevolo-Clerico-Rosso (1978).   See also on the same problem Wolleb-Wolleb (1984).

TABLE 5.1

HOUSEHOLD AND PER-CAPITA INCOME
BY GEOGRAPHICAL AREA 1985

(.000 Lira)

Areas	1980 Household Income	Per-capita Income	1985 Household Income	Per-capita Income	A/B
NORTH	1029	345	2023(A)	718(B)	2.81
CENTRE	948	295	1887(A)	632(B)	2.98
MEZZOGIORNO	810	230	1591(A)	479(B)	3.32
Indexes					
NORTH	100	100	100	100	
CENTRE	.92	.86	.93	.89	
MEZZOGIORNO	.79	.67	.78	.66	

Source: ISTAT

TABLE 5.2

LABOUR MARKET INDICATORS BY REGION 1985

	Labour force Population			Employees Population			Unemployed Labour force		
	men	women	total	men	women	total	men	women	total
Italy	54.7	28.1	41.0	50.9	23.3	36.7	7.0	17.4	10.6
North									
Lombardia	57.1	31.7	44.0	54.7	27.6	40.6	4.5	13.2	7.7
Valle d'Aosta	55.3	29.8	43.7	55.4	29.8	42.5	3.2	5.9	4.2
Piemonte	56.5	33.5	44.6	53.1	28.5	40.4	6.1	15.0	9.5
Liguria	54.3	26.2	39.6	51.3	22.7	36.3	5.7	13.6	8.5
Veneto	56.0	28.7	42.0	52.8	24.7	38.4	5.9	14.0	8.7
Friuli Venezia Giulia	53.9	29.0	41.0	50.7	25.1	37.4	6.1	14.1	8.9
Trentino Alto Adige	56.9	31.0	43.6	54.1	27.2	40.4	4.6	11.8	7.4
Emilia Romagna	57.1	36.3	46.4	54.5	31.4	42.6	4.7	13.4	8.1
Centre									
Toscana	55.3	31.0	43.0	52.6	26.8	39.3	4.9	15.2	8.8
Umbria	54.2	29.6	41.7	50.3	23.3	36.5	7.9	21.3	12.4
Marche	56.6	35.9	46.0	54.3	31.8	42.7	4.1	11.2	6.9
Lazio	56.0	26.7	41.0	52.1	22.3	36.8	7.1	16.5	10.2
Mezzogiorno									
Abruzzi	52.1	29.3	40.5	48.5	24.3	36.1	7.0	17.8	11.0
Molise	51.5	27.9	39.5	48.4	22.6	35.3	4.8	17.0	10.0
Campania	52.9	24.6	38.5	47.7	18.8	33.0	9.9	23.7	14.4
Puglia	51.7	23.2	37.1	47.1	18.4	32.4	9.0	20.7	12.8
Basilicata	53.0	29.4	41.0	48.7	22.0	35.1	8.2	25.3	14.4
Calabria	49.1	23.2	35.9	43.0	16.8	29.6	12.4	27.8	17.5
Sicilia	52.0	17.8	34.5	47.1	12.6	29.5	9.4	29.6	14.8
Sardegna	51.0	23.4	37.0	43.3	15.2	29.1	15.2	35.1	21.5

Source: ISTAT

TABLE 5.3

PER CAPITA INCOME BY REGION 1980-1985

	1980	1985	1980	1985
	Italy = 100		Lombardia = 100	
<u>Regions</u>				
<u>North</u>	117.3	116.9		
Lombardia	124.1	124.9	100.0	100.0
Valle d'Aosta	114.3	114.0	97.8	90.4
Piemonte	121.4	113.5	92.1	91.2
Liguria	112.6	117.3	90.7	93.9
Veneto	104.1	109.3	83.8	87.5
Trentino Alto Adige	113.9	105.9	91.7	84.7
Friuli Venezia Giulia	117.0	110.9	94.2	88.7
Emilia Romagna	115.3	115.5	92.9	92.4
<u>Centre</u>	100.3	102.9		
Toscana	111.2	103.7	89.6	82.3
Umbria	93.5	91.0	75.3	72.8
Marche	105.4	107.0	84.9	85.6
Lazio	92.2	102.9	74.2	82.3
<u>Mezzogiorno</u>	78.2	78.0		
Abruzzi	89.8	94.1	72.3	75.3
Molise	88.1	82.9	70.9	66.3
Campania	75.9	80.1	61.1	64.1
Puglia	78.2	74.3	63.0	59.4
Basilicata	73.1	80.3	58.9	64.2
Calabria	72.1	85.7	58.1	68.6
Sicilia	83.3	70.4	67.1	56.3
Sardegna	68.7	80.8	55.3	64.6

Source: ISTAT

member, where the respective percentages for North and South are 37.4% and 49.9%. Nor is it true for households with two people in work, here the figures are 27.3% for the North and 18.3% for the South. Nor is it true for those with more than two employed members, where the figures are 5.6% and 4% respectively. The average size of the household for these other groups is 1.63, 3.01, 3.49, and 4.59 in the North, against 1.95, 3.64, 4.09, and 5.81 in the Mezzogiorno. Therefore, there are fewer employed in the South who have to support larger households.

As we have already noted, there are many indications that the high dependency ratio in the South derives mainly from socio-economic reasons. Firstly, the comparison between households of the same size shows that the gap between North and South increases as the households increase in size (see Table 5.5). This suggests that the lower number of employed people per household in the South is not just the result of the higher rate of concentration of larger households, where there is the higher dependency ratio; but it is also the result of a lower rate of employment in households of similar size and composition, a situation where demographic differences have no relevant role.

Secondly, the monetary contributionto the family income from the other employed members of the family is decisively lower in the South than in the North. In the North, households with two employed people have an income 30% higher than those with one member in work, and those with more than two employed members an income 25% higher than those with two. In the South, the respective percentages are 20% and 10% (see Table 5.4).

From this data we can conclude that changes in the family, in relation to the formation of income, are slower in the South than in the North. Since the opportunities for finding a job are fewer and the level of wages lower, other members of the household are discouraged from being economically active, and their eventual contribution is negligible. In the South, therefore, family income does not differ much from that of the head of the household, whereas in the North the difference is more marked.

The situation of under-development has a negative effect on the income of the head of the household as well.

The gaps between North and South in productivity, and consequently in income per employed person, are very wide (in this case, as in others, we have no data which only refers to the head of the household). Such gaps are particularly wide in agriculture, where they are as high as 50%, if we compare the national average with the average of small regions, such as Basilicata and Molise; and they vary between 20% and 40%.

TABLE 5.4

HOUSEHOLD AND PER-CAPITA INCOME
BY NUMBER OF EARNERS AND EMPLOYED 1985

Area	1 Earner	2 Earners	> 2 Earners	0 Employ.	1 Employ.	2 Employ.	> 2 Employ.
NORTH							
%	45.5	40.6	13.4	29.7	37.4	27.3	5.6
Household Y (A)	1561	2261	2903	1193	2036	2645	3307
Per-capita Y (B)	696	757	671	730	677	758	721
A/B	2.24	2.99	4.33	1.63	3.01	3.49	4.59
MEZZOGIORNO							
%	61.2	29.7	8.0	28.8	49.9	18.3	4.0
Household Y (A)	1375	1871	2296	990	1906	2296	2517
Per-capita Y (B)	450	544	453	508	524	562	433
A/B	3.06	3.44	5.07	1.95	3.64	4.09	5.81

Source: ISTAT

TABLE 5.5

HOUSEHOLD AND PER CAPITA INCOME
BY SIZE OF HOUSEHOLD AND GEOGRAPHICAL AREA 1985

(.000 Lira)

	1 Comp.	2 Comp.	3 Comp.	4 Comp.	5 Comp.	> 5 Comp.
NORTH						
%	19.8	25.2	24.0	20.2	7.3	3.4
Household Y	1032	1758	2273	2564	2818	3077
Per-capita Y (B)	1032	879	758	641	564	472
MEZZOGIORNO						
%	16.0	19.5	18.9	22.9	13.3	9.2
Household Y	835	1281	1648	1872	1983	2182
Per-capita Y (A)	835	640	549	468	397	326
A/B	.80	.72	.72	.73	.70	.69

Source: ISTAT

If we take larger regions such as Campania, Abruzzi, Puglie, and Calabria. The gaps are very significant in the industrial sector too, where the levels of income per employed person are 20% lower than the national average in that particular sector, while they are negligible in the private service sector, and they disappear in the Public Administration sector.[6]

A further element which has a negative effect on the South, in comparison with the North, is that of capital incomes. In the current situation, when real rates of interest are high, the great disparity in the distribution of wealth is producing conspicuous flows of capital income, directed mainly towards the North. The importance of this single factor as a cause of inequality is particularly significant, despite its relatively modest position within the income total.[7] This, as well as the great capital gains of the last few years, have enriched groups of people living mainly in the North, and who were already in the high income brackets.

Leaving aside expenditure on public goods, the distribution of transfer income has also resulted in the worsening of the situation between the South and the North in relation to disposable income per household. This `perverse' effect can be attributed to the large proportion of transfer payments in pensions which go to the North, where there are more elderly people, and where the average level of pension is higher. The size of this direct flow to the North more than compensates for the many charitable allowances distributed by the State in the South.

In the last fifteen years the only, but crucial, element of the State redistributive function that has worked in favour of the South is the fiscal action. This has operated through the higher fiscal charge per capita in the North, where incomes per employee are higher and the ratio between those in employment and population is also higher.[8]

The relative stagnation in the Mezzogiorno which has lasted for the last fifteen years, together with the near completion of the process of homogenisation of the rest of the country (Centre/Eastern regions and North/Western regions) both in terms of productivity and per capita income, have changed the distribution of income per household at a regional level. Beyond the deep differences in the productive structure, which are still evident between one region and another in the

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[6]. See Wolleb-Wolleb (1984).

[7]. For the quantitative assessment of the importance of capital income as a factor of inequality at regional level see Wolleb-Wolleb (1984).

[8]. The redistributive role of social contributions and taxes at regional level is estimated in Wolleb-Wolleb (1984).

country, we are in the midst of a new dualistic situation in which the levels of economic, social and civil welfare are decisively different in the Mezzogiorno then in the rest of the country.

6.   CONCLUSIONS

The most important factors of inequality in income distribution amongst Italian families are: the income of the head of the household; the presence in the labour market of the other members of the household; and the geographical area to which the household belongs.

The level of income of the head depends on his position in the labour market. The employed, adult head receives an income far higher than the one received by an aged retired head.

Amongst the employed household heads the differences in income depends on the socio-professional category and their level of qualification. Naturally, things are not perfectly rigid; there is a significant latitude in the way in which these preconditions work in practice. In fact within each social group there are gaps as big as those between one group and another: a fact which shows both the high degree of segmentation of the social body and the inadequacy of the statistical disaggregation by socio-economic category.

The lack of a direct correspondence between qualification and level of income shows that the educational curricula are not entirely adequate for the presumed professional outlet. It also shows that professional qualification is increasingly taking place on the job, while chances of having a high level of income through self-employment, where the level of qualification is not necessarily important, have increased.

In spite of these limitations, our analysis has shown a definite income hierarchy between social groups and levels of qualification, with differences in pay which are still very high.

The income of the head of the household is the fundamental core of the family income, but it is no longer its only component. The income of the other members of the family are an essential contribution to the family income and to the standard of living of the family itself. The gaps in income are therefore greatly affected by the number of members who are either employed or earners. Thus, simple information on the income, social provenance and level of qualification of the head, is not sufficient to judge the position of the family on the income ladder. The eventual contribution of other members of the family alters the income hierarchy established by the socio-economic category of the head. The number of employed in the family is, therefore, a factor of social mobility in relation to income.

The most important contribution to the income of the household head is that of married women. Their presence in the labour market is conditioned by three related factors. First is the life-cycle of the family, where the greatest obstacle to women working is the number and age of children, and by the inadequacy of childcare facilities provided by the State. The second factor is the possibility of finding a job with the required conditions, and the high rate of female unemployment shows the difficulty in finding such a job; and third, is personal choices which are dictated by cultural traditions.

At an aggregate level the contribution of the third employed/earner, presumably a child, is low, a fact which does not exclude the fact that in specific classes of population their contribution to the family income may assume greater significance.

The contribution of receivers of transfer payments is significant in those households where there are two generations of adults living together. In such instances the income of the pensioner is amalgamated with incomes from the employment of the following generations, increasing the family income noticeably.

In Italy, the territorial position of the family is an important factor of inequality in income distribution. In the Mezzogiorno all factors of inequality play an unfavourable role in determining the relative levels of income. The incomes of the heads of household are lower because of the difference in the sectorial composition of the two economies, with agriculture having more importance in the Mezzogiorno, and, above all, because of the wide productivity gaps within the same sectors. The contribution of the other members of the household is lower, both because there are fewer second and third income earners and because the monetary level of their contribution is lower. This is mainly the result of insufficient labour demand which is reflected in high rates of unemployment and low rates of activity.

In the Mezzogiorno the level of transfers is also lower, because retirement pensions reflect the gaps between labour income, and because there is a concentration of low level transfer payments which are given as an addition to the family income for charitable purposes. The lower levels of individual income and of employment also increase the average size of the household, highlighting the protective function of the family.

The comparison with the standard of living in the North is, therefore, even more unfavourable because, in the South, family incomes are lower and they must satisfy the needs of more people.

STATISTICAL APPENDIX

Data on household income in Italy can be drawn from two different sources: the Bank of Italy Survey on Households and the ISTAT Survey on Household Budgets.[9]

The first of these surveys is available from 1966 and contains data on both individual and household income and on wealth. However, the results drawn from this survey are not generally considered very reliable because the size of the sample, slightly above 2,000 households, was very small. This results in the volatility of the results as shown by the wide changes, year by year, of the values of the Gini coefficients, estimated on household income distribution.[10]

The statistical source used in this study is the ISTAT Survey on Income Distribution carried out from 1980 onwards and which is, in reality, a simple extension of the Survey on Expenditure carried out by the ISTAT from 1968.

The ISTAT Survey makes use of a very wide sample (36,000 households) and provides information with a certain degree of disaggregation. The sampling of the data is carried out by giving each family a notebook in which they record in detail their monthly expenditure. Families are chosen according to a `stratified' sample, in order to take into account the size of the residence commune, the prevailing economic activity and the altimetry (plains, hills, mountains). ISTAT charges a communal employee with the collection of the notebooks and with the control of the consistency of the answers. In particular if the identity INCOME = EXPENDITURE + SAVING is not satisfied, either a correcting procedure is carried out or the questionnaire is invalidated.

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9. See Banca d'Italia `I bilanci delle famiglie italiane', supplemento al Bollettino della Banca d'Italia, Roma, various years. ISTAT `La distribuzione quantitativa del redditoin Italia nelle indagini sui bilanci di famiglia', in Supplemento al bollettino mensile di Statistica, Roma, various years, and ISTAT `I consumi delle famiglie' in Supplemento al bollettino mensile di Statistica', Roma, various years.

10. For detailed analysis and criticism of the various sources of data on household income see Banca d'Italia `Le indagini campionarie sui bilanci delle famiglie italiane', Roma, 1986. For a specific criticism of the ISTAT survey on income see C. D'Apice `I redditi delle famiglie nelle indagini Istat', in Politica ed Economia, No. 5, 1984.

The results of the Survey make possible an analysis of:-

- the topology of expenditure
- the pattern of expenditure by the professional status, the age and the degree of instruction of the head of the household
- the territorial area
- the number of earners and employed
- the size of the family.

The main limitation of the Survey, as an instrument in the analysis of income distribution, derives from its original nature as a Survey on Expenditure, so that specific questions on income and on saving are limited.

The following limits are particularly prejudicial for an analysis of household income distribution.

Firstly, there is no information on household income by individual components.

Secondly, there is no differentiation of household income by types of source.

Thirdly, there is no separate information on original, gross and disposable income. Information refers only to disposable income.

The main definitions used in the ISTAT surveys are:-

HOUSEHOLD: a household comprises one person living alone or a group of people living at the same address having meals prepared together and with common housekeeping. The members of the household are not necessarily related by blood or marriage but they include all residents.

HEAD OF HOUSEHOLD: the head of household is the person who declared himself (herself) head of household in the interview.

EMPLOYED: persons aged 14 or over who, at the time of the interview were gainfully employed, either full or part-time and either attending work or absent on holiday only.

UNEMPLOYED: persons aged 14 or more who have lost their job and are still without a job at the time of the interview, but have declared they intend to seek work or are seeking work.

PEOPLE SEARCHING FIRST OCCUPATION: persons aged 14 or over who have never worked and are seeking their first job.

RETIRED: persons not working who have reached the age for receipt of National Insurance Retirement Pension, i.e. 65 and over for men and 55 and over for women.

UNOCCUPIED: persons who are neither working nor looking for a job who have not reached the age for receipt of a retirement pension.

DISPOSABLE INCOME: all monetary inputs (wages and salaries, income from self-employment, capital, income, social transfers, imputed rent of owned dwellings) less taxes and social contributions.

TERRITORIAL AREAS: North, Centre, Mezzogiorno (South).
North: Piemonte, Valle d'Aosta, Lombardia, Liguria, Veneto, Trentino Alto Adige, Friuli-Venezia Giulia, Emilia Romagna.

Centre: Toscana, Umbria, Marche, Lazio.
Mezzogiorno (South): Abruzzi, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna.

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THE HOUSEHOLD DISTRIBUTION OF INCOME IN SPAIN 1973-1981

IN DEFENCE OF THE WELFARE STATE

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1. <u>INTRODUCTION</u>

The aim of this paper is to analyse the household distribution of income, for the period 1973-1981. We cover both market generated income and the redistributional effect of government policies. The object is to identify the main causes or sources of inequality and to locate the types of households which face particular economic disadvantage. In short, the analysis is concerned with income distribution with an emphasis on welfare.

The Spanish data that is available is not only "old" (the most recent surveys refer only to 1973 and 1981), it is also inadequate for conducting a strict comparison between families of equal size and for conducting a comparison of equivalent incomes and constructing welfare indices.

Another caveat must be noted at the outset: we feel that making comparisons for 1973 and 1981 imposed strong limitations, not just because of the statistical restrictions commented on before, but also because the period starting in 1982 is the one in which, for the first time in Spanish history, there was a socialist government in power (the previous one being the government connected to the political transition to democracy). Our impression is that, during the time of the socialist government, the functional distribution of income has worsened as a result of government policies designed to stimulate profits. According to official sources, huge investments were expected; this could also have altered the household distribution of income.

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(1) The paper covers the period 1973-81, our selected years are coincidental with the years for which there exists Family Expenditure Surveys. Spanish FES corresponding to 1973 and 1981 are not homogeneous (see appendix) and this feature creates a lot of difficulties; for instance; (a) the extension of the Survey limits the range of potential comparisons and; (b) the institutional change registered in Spain between the two years poses difficulties, even with the identification of categories in, for example, the regional comparison of income distribution, and in other categories (see below); the political process of transferring power to regions from a rigid centralised state, since democracy came to Spain is well known (about 1978 after a transition period beginning in 1975). See too Ahijado-Clapes (1987).

(2) We shall talk of families, households and "economias domesticas" (domestic economies) without loss of generality. In Spanish literature it is usual to describe these "by families or familiar distribution" but the European Report will use the term "household".

The choice of the "household" as the final unit of analysis is motivated by the observation that the standard of living of an individual is strongly determined by the type of family or household in which he/she lives and to which accrue different classes of income or monetary inputs. It is evident that two equal incomes can hide different levels of welfare if, for instance, they correspond to two families in which the number of members and/or earners behind it are different.

On the other hand, the main concept of income, as used in the Spanish Family Expenditure Surveys, is that of disposable income, defined as the sum of wages and salaries, capital incomes, less social contributions, less taxes plus social transfers. This concept is not very useful, in a study of market versus State distribution because it does not permit the redistributional effects of public policies to be distinguished or for any reasonable degree of disaggregation to be undertaken. This aspect will be considered by using other sources of information.

We wish to pose and answer the following questions with regard to the distribution of income:

(1) What is the size and the structure of inequality in income distribution?

(2) Has there been a tendency for this inequality to increase or decrease?

(3) What has been/what is the role of the State and its redistributional policy and how effective has this been?

(4) What were the main changes, from an economic point of view, in the composition of the population and work force?

(5) What have been the main sources of inequality?

(6) What factors are instrumental in causing inequality and how do they affect specific groups, often in a cumulative way, thus producing particular disadvantages and even poverty?

To deal with these questions the paper is divided into two main parts. In Section 2, after briefly discussing the framework of the Spanish economy and the economic policies which affected the distribution of income, we present a temporal comparison of some variables which permit us to measure the inequality in the form of indicators of the distribution such as the Gini coefficient; some trends such as the age structure of the population and the dependency ratio, etc. In Section 3, the main causes or factors of inequality (i.e. geographical, structure of family and the labour market causes, etc.) are considered and cross-classified and, if inequality exists, the areas in the distribution which a

particular factor, or set of factors, is likely to affect can be shown. The Appendix is devoted to definitions and concepts as well as methodology.

2.   DISPERSION OF THE INCOME DISTRIBUTION: 1973-1981.

We use here the well known Gini coefficient to measure income distribution disparities in aggregate. Obviously these measures must be used cautiously taking into account the possible offsetting effects caused by the mobility between FES's groups.

For the total set of households the Gini coefficients were:

1973	0.3935
1981	0.3730

The inequality shown by the index decreased, but only by a very small amount, a mere 0.0205, percentage points, so we can conclude that there is striking stability in the temporal evolution of the income distribution (see Lorenz curves below).

So taking the Gini coefficients as the index of inequality or dispersion in the distribution of income, one can say that the distribution, after taxes, was surprisingly stable although there was a slight move towards a more egalitarian distribution of income.

From the analysis by decile of total disposable income for all households, we see that the index shows not only stability over time, but also a relatively high concentration, in the share of income going to the higher deciles.

TABLE 2.1

HOUSEHOLD DISPOSABLE INCOME BY DECILE

	1	2	3	4	5	6	7	8	9	10
1973	2.05	3.89	5.25	6.51	7.76	9.06	10.56	12.51	15.64	26.75
1981	2.47	4.07	5.42	6.68	7.94	9.23	10.68	12.56	15.52	25.37

This stability is shown again when we see that the bottom 50% of families get only 25% of total income. Though slight, the only reductions in the share of income are located in the two top deciles.

The degree of dispersion can be seen by looking at the ratio of the share of income going to the top and bottom deciles. For all households:

D10/D1

1973	1981
13.04	10.27
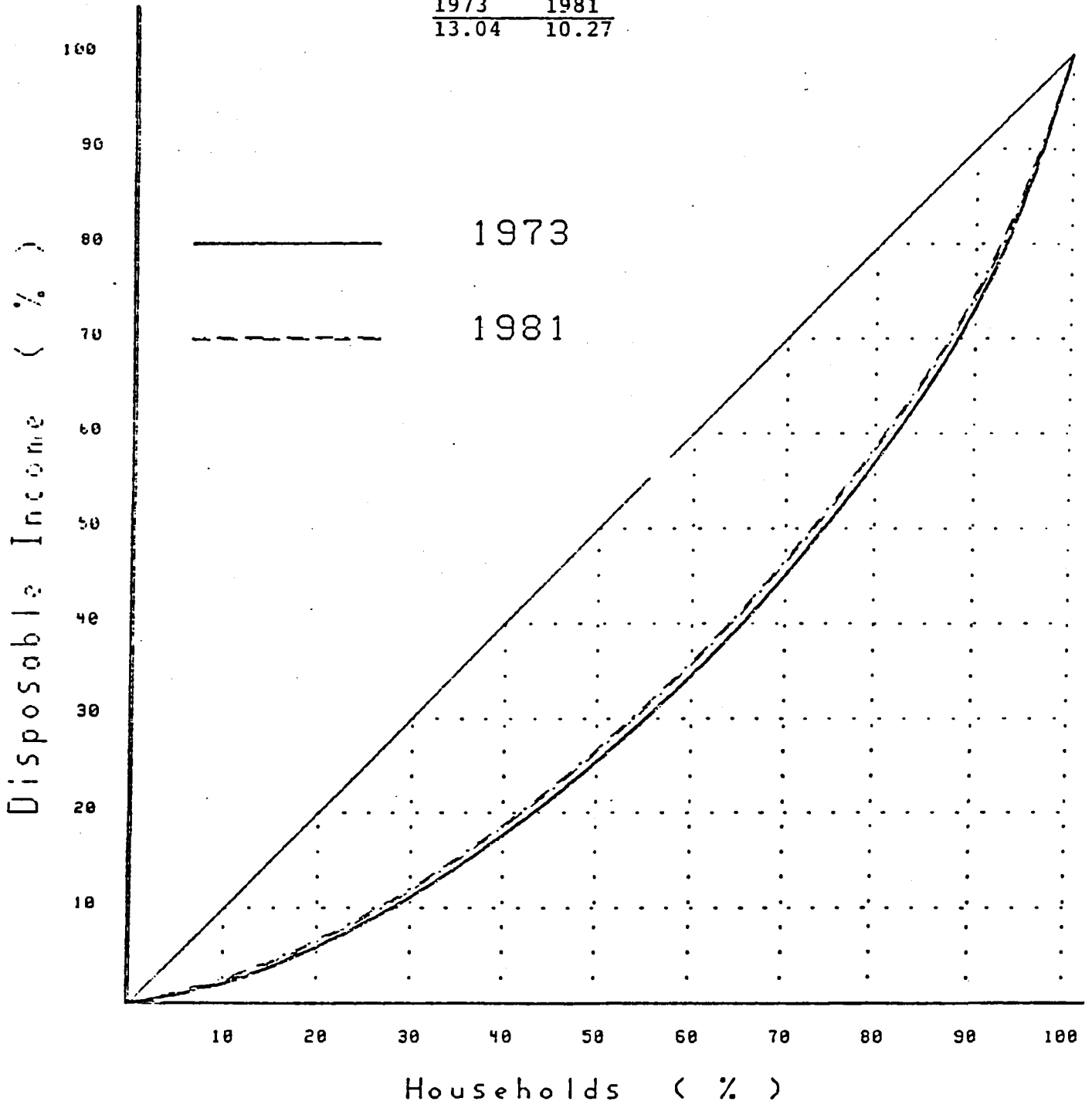
LORENZ CURVES

With this indicator the same result is obtained; the inequality has decreased a little for all households.

We will first look at government policies and then at demographic changes in order to find explanations for the general stability and the small reduction in inequality in the distribution.

2.1 The Framework of the Economy and the Economic Policies During the Period

The distribution of income in the period being studied was obviously determined by the incomes obtained in the market and also by the changes and economic policies implemented by governments, particularly the ones referring to transfers by the State. In this paragraph we shall discuss the general economic framework behind the observed distribution and the main direction of policies.

The period can be characterised, to a large extent, by a big institutional change which determined the possibilities for action and the room for manoeuvre. It was the transition to democracy which overlapped the early effects of the economic crisis, which began in 1973 after the first substantial increase in oil prices, and lasted until now, with another point of inflexion in 1979.[11] The early democratic governments carried out a deep and extensive institutional and political change - a very time and resource consuming task - and had to face economic crisis at the same time.

The first transition period was one of high social claims, which translated into large wage increases. The resulting double figure inflation and unemployment following
the oil crisis, appeared as the two main economic problems. The subsequent central governments (and even the socialist government after 1981) favoured the idea that the main problem was inflation. The cause, they said, was typical of cost-push theories; "excessive" wage increases, in both nominal and real terms.

The theoretical argument was much too simple and naive (as the facts later showed); they pretended to raise investment (and then employment) through increases in the entrepreneurial surplus, without previously developing a formal negotiating process on the question of investment. The last link in the chain did not function properly, probably due to other factors, usually referred to as "animal spirits" and political, economic and institutional uncertainty.

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11. For the analysis and consequences see EFER's Report on Europe and the World Economy (Cripps et al 1985).

The growth rate of the economy, as represented by GDP, decreased from 7.9% (a "Japanese" rate of growth) in 1973, to a mere 1.1% two years later, was an average of 2.1% per annum till 1981 and then steadily decreased until a floor of -0.86% was reached in 1981.

During the period the economy suffered a very strong structural change, shifting from an industrial economy to a services economy, as measured by both the value added and employment. Nevertheless, the industrial sector managed to attain a very good growth in productivity (35% to 25% for the economy as a whole between 1975 and 1982) (Toharia 1986).

The persistence of the 1973 economic crisis (and its deepening, as an almost direct consequence of the second wave of increases in the price of crude oil in 1979), together with the economic policies which favoured the control of inflation, gave rise to spectacular increases in the rate of unemployment. In 1973 there was almost full employment, unemployment being 2.5% but, by the end of the period being studied, this rose to 15.0% (the trend then continued so that unemployment rose to 22.0%, one of the highest in Europe). This fact forced the unions to concede to an incomes policy which was negotiated at three levels (Government, Trade Union and "Patronal").[12]

With it the link was broken between the increase in productivity and increases in wages and salaries. The share of wages in the value added decreased from 1978 onwards.

These facts affected the level of income and its distribution at least from the point of view of the numbers receiving income from employment, because of the mass unemployment.

2.2 The Fiscal System: Gross and Net Incomes

In general the Spanish data corresponds to disposable income, after tax and social contributions. Looking at public revenues and social contributions will allow us to differentiate between gross and disposable aggregate income and to grasp, however roughly and qualitatively, through a complicated system of taxes and public expenditures, the role of redistribution policies on people's welfare and in offsetting the market forces at work.

The redistributional policy operates in two stages:
(1) from the public revenue side where the decision is made to tax a group to achieve a given level of the Public Sector Budget, which implies a redistribution policy, which raises the question of the regressiveness or progressiveness of the tax

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[12]. Together with a political desire for collaboration to strengthen the young democracy in the period of institutional change.

system. (2) From the expenditure and benefits side, there is another, maybe more explicit, redistribution policy, and account can be taken of the redistributive effects of each and every type of expenditure (i.e. with extremes in education and transport).

It is well known that from the revenue side the system is slightly redistributive, whereas it is much more redistributive from the expenditure side.

All this is obvious, but perhaps not trivial for a country like Spain which, in the period studied, registered profound changes in very important and very well rooted institutions, such as a modern fiscal system.

To measure the first effect (the revenue side) it is necessary to look at the general fiscal system.

TABLE 2.2

DIRECT, INDIRECT AND TOTAL TAXES, PER CENT.

Years	DT		IT		TT	
	%	var	%	var	%	var
1975	4.09	–	5.43	–	9.53	
1976	4.36	0.27	5.38	-0.05	9.74	0.21
1977	4.51	0.15	5.14	-0.24	9.66	-0.08
1978	5.24	0.73	4.99	-0.15	10.23	0.57
1979	5.40	0.16	4.83	-0.16	10.23	0.00
1980	5.99	0.59	5.09	0.26	11.08	0.85
1981	6.17	0.18	5.62	0.53	11.79	0.71
1982	6.35	0.18	5.50	-0.12	11.85	0.06

The figures correspond to the general fiscal pressure, as the ratio of taxes to GDP increased fairly consistently from 1977, the year of the Fiscal Reform or, more obviously, from the year (1978) in which policies contained in the Fiscal reform were applied. Nevertheless the ratio is still low in relation to other European or Western countries.[13]

The pressure on direct taxes increased evenly from 1978 in accordance with the more irregular increases in indirect taxes. One would have expected a decrease in the latter, but according to Treasury officials the "conjunctural" effect of the economic

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[13]. The 13% figures for Spain in 1981 corresponds to 29.0% for the EEC as a whole in the same years, an average of 27.7% for OECD countries and 19% for Japan.

crisis favoured the tendency to maintain the levels reached before the Reform.

Another fiscal indicator of the "redistribution" policy which is maybe more meaningful than the one already considered, is provided by the ratio between direct and indirect taxes. In the case of Spain this is a reasonable indicator for the period studied.

TABLE 2.3

DIRECT/INDIRECT TAXES

Years	DT/IT	Change
1975	74.5	-
1976	80.9	10.4
1977	87.7	6.8
1978	104.3	16.6
1979	110.9	6.6
1980	117.7	6.8
1981	109.8	-8.0
1982	115.5	5.7

Both measures show how the fiscal system contributed to a greater equality in the distribution of income thus offsetting the market failures.

The relationship is an increasing one, 1978 again being the year in which the index was above 100 and when the rate of change was the largest in the series, 16.6%. As has already been mentioned this was the year of the Reform. In this Reform the main tax for the first time in Spanish fiscal history was income tax - or at least the one with the most potential revenue generating power. But this time the reason for maintaining the indirect pressure, again according to official sources, was the crisis plus the need to substitute the old ITE (a tax on the firm's "traffic") by a value added tax proper, which resulted in an increase in the amount of indirect taxation (i.e. a fall in the index of -8.0 points by 1981). The share of the income tax over total revenues increased by 50% during the period, from 21.9% in 1975 to 30.0% in 1982.

There are various reasons for having different treatment for wages and capital incomes in the fiscal policies:

a)   The tax on property (Patrimonio) represents only 0.7% of the total revenues. This tax was first conceived as a complementary tax to the general income tax.

b)   The share of wage retention went up from 62.5% to 83.8%

between 1975 and 1982, whereas the corresponding ones for capital went down, with 13.2% and 11.3% as initial and final points.

c) Last, but not least, it is interesting to comment on the tax on firms' income. This tax shifted from representing 10.5% of "apparent" State revenues in 1975 to 7.6% in 1982. It was created by the already quoted Act, which did not state the expected results. The cause of the fall being, again according to Treasury officials, the usual explanation, the economic crisis which badly affected the firms' profits and consequently eroded the revenue from this tax base.[14]

The level and composition of tax evasion is another very important point in characterising the role of the fiscal system in the income distribution process. The degree of payment of tax by wage and salary earners was 23.93% in 1979, more than from the other sources of fiscal revenues; the corresponding percentage for 1983 was 27.84% (Lagares et al 1985). Tax payments are made through a controlled system for 95% of wage earners. Only about 50% of capital incomes are declared for tax.

We can conclude that the Spanish fiscal system has improved, and approached the European system during the period. The progressiveness has been improving too, but it started from very low levels. However, some clouds remain, especially the ones coming from the weight of indirect taxes, and the very high tax evasion from capital income sources. In general we can conclude that the fiscal system has only made a small contribution to the reduction of inequalities in income distribution, but this has had a tendency to move towards greater equality. We can, therefore, draw the tentative conclusion that, over the period, as expected, the system contributed only slightly to the revenue side of the general redistribution policy.

2.3 **Were there changes in the conception of the Welfare State?**

To complete the picture it is necessary to look at social benefits - the expenditure side of redistribution policies. Firstly, a very general comment on the evolution of the social security system during the period is necessary.

It is evident that the system of transfers and public social benefits affected both gross, and disposable incomes and the income available for the expenditure of a household.

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[14]. Very recent studies reveal that the net capacity of the corporation tax to finance spending is nil, due to the fact that a similar amount is devoted to subsidies to firms.

During the period under study the political complexion of the government was centre, (or centre right, socialist after 1982); right wing in the transition and centre afterwards. The fact is that in Spain, during the reference years these governments with moderate tendencies carried out, in general, really progressive policies.

The deepening of the economic crisis and its effects were not felt until the last part of the period being studied (i.e. the world's restructuring of the composition of output) and it is since then that the political commitment to reduce social security expenditure arose and was later maintained by the socialist government.[15]

The question is, therefore, more complicated in regard to Spain for two reasons: (1) the previous system of financing (in a scruffy political setting) was not a true capitalisation of a revenue system, but was based on the naive belief (as was later demonstrated) of maintaining economic growth, growth of output and employment; and (2) an "inefficient" managing of the system.

In general, it is true that one can expect conservative governments to try to emphasise the protagonism of the market and consequently the market system as the vehicle of income generation (resource allocation) and determination; and it is equally true, in general, that leftist governments are expected to reduce observed inequality through redistributional policies.

But, as a matter of fact, the social security system (i.e. the number of benefits and to some extent the "size" of them) imposes a restriction on the operation of any meaningful reduction of public spending on this by any government.

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[15]. In passing, it could be said that this commitment was adopted without a proper debate on its merits and disadvantages and the role which the welfare state should play.

TABLE 2.4

SOCIAL SECURITY - RESOURCES, CONTRIBUTIONS AND SUBSIDIES AS A PERCENTAGE OF GDP.

Years	R/GDP	in % C/GDP	S/GDP
1973	8.71	7.94	0.47
1981	11.96	10.28	1.33
1983	12.51	10.07	2.14

R: resources
C: contributions
S: subsidies

The absolute number of benefits[16] is important.   It has increased and means that more than 13% of the total population (on average), actually receives a benefit.[17]

The resources, as a percentage of GDP, increased during the period;   largely between 1973 and 1981, by 37.31%, being 12% of the total.   The tendency is still towards increase, but at a slower rate, (i.e. a cumulative rate of 6.31% between 1981 and 1983).   The contributions, a slightly regressive feature from an income distribution point of view, account for 86% of total resources, the rest being subsidies, but this decreased between 1981 and 1983.

Of benefits the most important ones were retirement pensions (53-46%) which have decreased over the period;   the orphan, family and other benefits only amount to a stable 4%, and the ones for sickness and widowhood together amount to 43-49% of total benefit claimants.

In value terms the structure was similar, but the retirement pensions retain a larger share, although this decreased from 56% to 51% over the period.

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[16].   Unemployment benefits are considered separately because they are managed by a different Ministry.

[17]. As a rule in the socialist period (i.e. 1982 onwards) there is a one to one relationship between pensioners and pensions.

The same can be said of orphan-family benefit (3% stable), but the amount payable for sickness benefit has been increasing.[18]

The number of benefit claimants increased in the period (1973-1981) by an average rate of 5.19%; from 3,799,908 in 1977 to 4,626,612 in 1981. Of these the retirement pensioners are the most important with a share of 53.14% of the total in 1977 and - after a small reduction - 48.89% in 1981. The sickness and widowhood benefit claimants are the next largest with basically stable shares of around 20% in each category. In terms of expenditure the increase in benefit claimants produced annual increases in expenditure of 36% on average, the extremes being 56.27% in 1977 and 26.49% in 1983. Evidently the rate of growth was decreasing; it is also worth mentioning that the starting levels were, on average, very low on average, which explains the high rates of growth.

These benefits were financed from social contributions and subsidies, but, whereas the share of social contributions was decreasing (it amounted to 93.8% in 1973 and 85.7% in 1981, the same tendency being followed later with 77.8% in 1985); the share corresponding to subsidies was increasing; from 5.5% in 1973 to 11.1% in 1981, the same tendency giving rise to a 21.8% share in 1985. In those same years the ratio of contributions to total resources was 91.11% and 85.97% and the ratio of subsidies to resources was 5.39% and 11.08% respectively (1973 and 1981). The ratio of total resources to GDP changed from 8.71% to 11.96% (12.75% in 1985); the ratio of contributions to GDP jumped from 7.94% to 10.07% (9.72% in 1985), and the subsidies as a percentage of GDP increased to 1.33% from 0.25% (2.72% in 1985).

Of total expenditure by the State, 12.19% of GDP in 1973, social benefits were 2.78% (of the 12.19%); and they grew to 6.43% in 1981. Benefits were multiplied by a factor of 2.3 (from 2.78% to 6.43%). Health benefits were a very relevant factor in this (2.57% in 1973 and 3.72% in 1981, so it was multiplied by a factor of 1.5).

Thus it can be seen that, during the period, there was an enormous rise in the size of the social security system, as a proxy for the welfare system, although the large rise is partly accounted for by the very low levels at which the benefits started.

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[18]. There are reasons for thinking that there could be spurious increases here due to an inefficient conception and management of the system.

TABLE 2.5

PERCENTAGE COMPOSITION OF NUMBER OF BENEFITS
BY CATEGORY - SOCIAL SECURITY.

	1973	1981	1983
Sickness	21.09	23.91	26.33
Retirement	53.14	48.89	46.70
Widowhood	22.30	23.63	23.54
Orphan	3.03	3.14	3.00
Family	0.42	0.43	0.43
Others	0.02	0.01	0.00
	100.0	100.0	100.0

TABLE 2.6

PERCENTAGE COMPOSITION OF EXPENDITURE BY CATEGORY
SOCIAL SECURITY

%	1973	1981	1983
Sickness	24.16	26.98	30.11
Retirement	56.17	53.58	51.34
Widowhood	17.07	16.86	16.15
Orphan	2.27	2.19	2.04
Family	0.33	0.39	0.36
Total	100.0	100.0	100.0

The share of cash benefits was 77.30% in 1974 and 83.92% in 1981. Of these the central government gave 13.74% in 1974 falling to 9.84% for 1981 (the figure was 9.12% for 1984). The social security share declined too, from 83.32% in 1974 in money terms to 66.30% in 1981 and 69.46% in 1984.

The losses were in favour of "other social security systems" which had the biggest percentage gains; from being 1.41% in 1974 they rose to 19.26% in 1984 (and 21.80% in 1981) and also in favour of "other public administrations" which increased from 1.5% to 2.05% between 1974 and 1981 (2.15% in 1984).

This to some extent reflects internal redistribution due to the state of creation of "autonomias". Thus the system saw both volume and structural changes as a consequence of the double effects of crisis and institutional change.

Of these sources the benefits which came from the general social security system were the most important, not only because of the percentage it contributed, but it was also very important in absolute terms; 58.44% of the total benefit expenditure, 60.37% and 64.80% for 1974, 1981 and 1984 respectively.

Taking indices equal to 100 for 1974 at current prices; although this is not very important for studying the structure; the cash benefits of the social security system were multiplied by factors of 4.6 and 7.36 for 1981 and 1984. The ones coming from the central State were second in importance, and increased by factors of 4.14 and 5.85 (the total combined effect being 5.8 and 8.8).

Unemployment benefits increased, using an index of 1974 = 100, to a considerable 4680 and 5630 during the reference period (1973-1981), thus they were multiplied by factors of 46 and 56 respectively, as a consequence of the mass unemployment mentioned before. Our economy changed from an almost full employment rate in 1973 to 2,000,000 (3,000,000 at the moment of writing) unemployed from a total population of 38 million. But, even worse, the extent of cover for unemployment benefit is less than for our European neighbours (only 30% in Spain). On the other hand, the share of unemployment benefits of total benefits was decreasing for those years, 1974, 1981 and 1984: 33.61%, 21.8% and 16.36%.

We can conclude that social expenditure contributed strongly to maintaining household income, thus offsetting the effect of unemployment, and transferring incomes from the higher to the lower income groups, due to improvements in the fiscal system of revenue collection, and particularly due to the increased importance attached to the role of public spending.[19]

Before going on to the disaggregate "micro-economic" data of part 3, we will look at the importance of various sources of income.

2.3 Sources of Income

The sources of Spanish incomes, as classified by the Family Expenditure Surveys, were the ones shown in Table 2.7, with minor modifications.

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[19]. In other cases the disparity in income distribution would tend to increase.

TABLE 2.7

TOTAL INCOMES IN %

			1973	1981
1.	Ordinary incomes		99.28	98.98
	1.1	Employees	59.29	57.19
	1.2	Self-employed	22.59	15.60
	1.3	Capital and ownership incomes	8.62	12.18
	1.4	Transfers	9.05	15.01
2.	Extraordinary incomes		0.71	1.01

Ordinary incomes represent the 99% of total income, having been stable over the reference period.

The most important changes in the source of income correspond to the self-employed income which lost 30.94 percentage points as a result of small firms collapsing during the economic crisis. The "transfer" incomes (and other incomes described in the 1981 FES, The Role of State) gained 65.85 percentage points as a direct result of the crisis, and unemployment etc. and, as a consequence of the increase in the social security welfare system, as already studied (see above). Obviously, the increase in transfers arises from the increases in unemployment benefits and pensions, particularly the anticipated ones which resulted from the crisis.

Wages and salary incomes (employees) lost on the whole 3.5 percentage points. The capital and ownership incomes had a 41.29 percentage point increase, (it must be remembered that the incomes considered here are disposable incomes, after taxes and social contributions plus benefits and transfers).

The evolution of aggregate incomes is shown in Table 2.8.

We can see that the evolution of gross and disposable incomes were strikingly similar (5.12 and 5.28 times in 1979 relative to 1970). This occurred despite huge increases in income tax, plus property tax.[20] The explanation for this is that despite the huge increases in the rates of tax, the absolute values were small around the fiscal reform years.

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[20]. As we have already seen the contribution of property tax is almost nil; so the huge increases correspond mainly to income tax.

TABLE 2.8

GROSS AND DISPOSABLE INCOMES

(Million Points)

1.	Wages and salaries (gross)
2.	Social contributions
3.	Wages and salaries (net) [1-2]
4.	Social benefits
5.	Capital and property incomes
	5.1 (resources)
	5.2 (uses)
6.	Transfers, current net
	6.1 (resources)
	6.2 (uses)
7.	Net income before taxes [3 + 4 + 5 + 6]
8.	Taxes on income and property
9.	Net income of families

index 1970 = 100

	1970	1974	1977	1979
1.	100	212.0	405.17	580.17
2.	100	289.19	527.7	778.64
3.	100	209.56	397.8	538.26
4.	100	225.13	487.79	882.71
5.	100	106.99	312.23	429.69
5.1	100	191.19	330.3	—
5.2	100	273.51	685.40	—
6.	100	124.82	164.09	
6.1	100	168.52	317.15	
6.2	100	218.66	492.81	
7.	100	201.38	362.40	528.55
8.	100	285.26	777.41	1592.70
9.	100	200.4	356.09	512.36

In 1970 the proportion of income tax on gross income was 1.49%, in 1977 3.21% and by 1979, after the Tax Reform, 4.51%.

Using an index of 100 for 1970, taxes have the largest rates of growth (multiplying by 7.7 and 15 for 1977 and 1979) due to the fiscal reform. Contributions were only multiplied by factors of 4.5 and 5.8 for both periods and social benefits by 4.8 and 8.8; the second most important for this period.

2.4 The Population and its Age Structure:
     Demographic Factors and the Labour Market

Demographic factors are another cause of changes in income distribution through the shift in the structure of households and number of earners in each household.

The Spanish population grew between 1970 and 1981 by 11.16 percentage points, reaching 37.8 million people. The distribution of men and women is approximately fifty-fifty (49.10 and 50.90 in 1981).

TABLE 2.9

POPULATION

Year	Total	Women	Men
1970	33,956,376	17,381,213	16,575,163
1981	37,746,260	19,216,496	18,529,764

The share for women and men is almost stable both in the total and by age groups.

TABLE 2.10

POPULATION BY SEX AND AGE

Aged 0-14, 15-64 and 65 and over
Total male and female - %

	0-14	15-64	65 +
1970	27.32	62.69	9.69
1981	25.66	62.94	11.22

It is easy to appreciate a fall of 1.66 (six percentage points) in the group of people aged 0-14; this corresponds to the fall in the fertility rate; and an increase in the numbers in the 65 and over group, of 1.52% but representing 22 percentage points; thus the decreasing number of young and increasing number of old people do not offset one another which produces interesting results (see below). This could explain, at least in part, the increases in both the number of pensions and benefits and their share of total expenditure, as noted above.

The most significant change was possibly the number in the 65 and over group, the retired, who not only registered growth but the biggest growth, with 15.78 percentage points. The reduction in the number of children (aged 0-14) is, perhaps, more meaningful as a long run tendency than in absolute terms; it registered a 6 percentage point cumulative rate of decrease. As such this structure and those tendencies could be worrying, more so if the "pensioners" (people receiving benefits) are located in a systematic way in some groups (i.e., deciles, etc.).

TABLE 2.11

RATE OF ACTIVITY AND RATE OF UNEMPLOYMENT
TOTAL (ALL AGES)

	Rate of activity total	Rate of unemployment total	RA Male	RU	RA Female	RU
1964-1974	52.1	2.03	-	-	-	-
1974-1977	52.9	4.86	-	-	-	-
1977	50.3	5.3	75.2	5.1	27.5	5.6
1978	49.8	7.1	74.1	6.6	27.5	8.1
1979	49.3	8.7	73.2	8.2	27.4	9.8
1980	48.7	11.5	72.2	11.0	27.1	12.9
1981	48.1	14.4	71.4	13.6	26.6	16.2
1982	48.1	16.2	70.9	15.1	27.1	18.9
1983	50.0	17.7	70.0	16.4	27.6	20.8
1984	47.7	20.6	69.4	19.4	27.6	23.4
1985	47.4	21.9	68.7	20.5	27.6	25.4
1986	47.7	21.5	68.5	19.7	28.2	25.6

RA = rate of activity
RU = rate of unemployment

Still more significant are the dependency ratios when looking at the household distribution of income, as we show in the following Table. (In fact, there are two possible dependency ratios: (a) a "macro-economic" dependency ratio, defined as the ratio of total population over the employed population and; (b) a "micro-economic" dependency ratio defined as the ratio of total people in the household over the number of unemployed in the household; here as an approximation we calculate first the ratio of unemployed over employed.)

An increase in the share of population aged over 65, if it is not completely offset by a decrease in the share under 14, produces an increase in the dependency ratio (defined as the ratio between non-employed and employed); this is a demographic factor. An increase in unemployment or a decrease in the rate of activity (or both) also produces an increase in the dependency ratio which, however, is due to changes in the labour market situation.

The dependency ratio worsened steadily, increasing 3.8 times between 1977 and 1983 (5.4 times between 1977 and 1986).

This worsening was provoked more by the increase in the unemployment rate and the decrease in the activity rate than by the increase in the dependant population as observed above.

The rate of employment and the rate of unemployment follow opposite tendencies, increasing the dependency ratio (corresponding to the unemployed as a ratio of actives) which increased by 2.71 times between 1977 and 1981, as a result of the crisis.

The percentage of employees by sex, male, female of total employees, was absolutely stable between 1977 and 1981 (71.55% and 28.44 in 1977 and 71.86% and 28.13 in 1981).

The same can be said of the percentage employees by sex as a percentage of active population, the ratio of both of them being 0.38 in 1977 and 1981.

There is in almost all European countries a long-run trend towards an increase in the rates of activity, employment and unemployment for women. It seems that this is not totally true for Spain where there were increases in the rates of activity (slight) and unemployment (heavy); 5.6 in 2977 to 20.8 in 1983 and 25.6 in 1986) but the rate of employment decreased slightly too.

If the structure of incomes were stable and the demographic structures and the labour market changing, the stability in the observed disparity indices could be attributed to various mechanisms, as indeed was the case, for instance: (a) basically, to the redistributive role of the State and, but less importantly, to; (2) the shock absorber role of Spanish families, being traditionally very close (the shocks to be absorbed at this time were mainly the ones provoked by the economic crisis).

TABLE 2.12

LABOUR MARKET RATIOS AND DEPENDENCY RATIOS

	% employees /actives	% unemployed /actives	dependency ratio
1977	94.71	5.28	0.05
1978	92.94	7.05	0.07
1979	91.30	8.71	0.09
1980	88.47	11.52	0.13
1981	85.63	14.36	0.16
1982	83.76	16.24	0.19
1983	82.25	17.74	0.21
(1986	78.51	21.48	0.27)

Rate of activity and rate of unemployment by sex and age
Rate of activity (*)

Year	16-19 T	M	F	20-24 T	M	F	25-54 T	M	F	55 and over T	M	F
1977	15.3	14.5	16.3	10.2	10.5	9.8	3.5	3.8	2.5	2.4	3.0	0.6
1978	51.3	57.1	45.3	59.2	62.8	55.1	61.8	95.5	29.3	27.4	46.3	12.8
1979	49.0	54.4	43.3	59.5	62.9	55.6	62.0	95.4	30.0	26.5	45.3	12.0
1980	46.7	52.4	40.5	59.5	63.1	55.2	62.0	94.9	30.4	25.6	44.0	11.4
1981	44.7	50.5	38.5	59.9	63.9	55.2	61.7	94.6	30.2	24.8	43.1	10.7
1982	43.1	49.2	37.0	60.7	65.2	55.7	62.5	94.5	31.6	23.9	41.5	10.3
1983	41.2	46.7	35.5	61.0	65.6	55.9	63.2	94.4	33.1	23.4	40.0	10.5
1984	40.2	45.9	34.1	61.1	66.0	55.7	63.5	94.1	33.8	22.6	38.8	10.0
1985	37.5	42.7	32.0	60.9	66.9	54.4	64.0	94.0	34.7	21.7	37.0	9.7

Rate of Unemployment

Year	16-19 T	M	F	20-24 T	M	F	25-54 T	M	F	55 and over T	M	F
1977	15.3	14.5	16.3	10.2	10.5	9.8	3.5	3.8	2.5	2.4	3.0	0.6
1978	21.6	19.9	23.9	14.4	15.0	13.7	4.4	4.7	3.7	2.9	3.7	0.8
1979	26.3	25.3	27.7	18.0	18.3	17.7	5.5	5.8	4.6	3.5	4.4	1.0
1980	34.9	32.9	37.6	24.1	24.4	23.7	7.3	7.8	6.0	4.5	5.5	1.5
1981	43.0	41.5	45.2	29.6	29.2	30.0	9.1	9.6	7.5	5.7	6.8	2.0
1982	47.6	46.5	49.2	33.5	33.3	33.8	10.4	10.6	10.2	6.4	7.7	2.4
1983	51.1	49.7	53.0	37.1	35.7	38.9	11.8	11.8	11.8	9.7	8.2	2.6
1984	55.6	54.4	57.1	42.1	40.5	44.1	14.2	14.3	13.9	9.2	10.9	3.8
1985	55.9	54.1	58.6	44.6	42.2	47.8	15.8	15.6	16.3	9.8	11.5	4.8

*   Rate of activity = % of population over 16 years previously declared active (the 65 and over are retired and thus not considered in the figure).

**   Annual averages.

***   Rate of unemployment = % unemployed over active population.

TABLE 2.13

RATES OF ACTIVITY BY AGE AND SEX - ANNUAL AVERAGE

Years	16-19 T	M	F	20-24 T	M	F	25-54 T	M	F	55 and over T	M	F
1977	53.5	60.0	46.8	58.5	62.1	54.4	61.8	95.8	29.0	28.1	47.9	13.1
1981	44.7	50.5	38.5	59.9	63.9	55.2	61.7	94.6	30.2	24.8	43.1	10.7
1985	37.5	42.7	32.0	60.9	66.9	54.4	64.0	94.0	34.7	21.7	37.0	9.7

Source: Encuesta de Poblacion Activa.

TABLE 2.14

DISTRIBUTION OF THE UNEMPLOYED BY TIME OF SEARCH
ANNUAL AVERAGES

	1	2	Total % 3	4	5	6
1977	6.8	24.4	23.6	24.5	15.1	5.6
1981	3.4	14.9	17.1	24.5	24.5	15.6
1985	2.5	10.5	12.1	18.2	22.4	34.4

	Male % 1	2	3	4	5	6	Female % 1	2	3	4	5	6
1977	7.7	25.5	23.7	23.6	14.5	5.0	5.0	21.9	23.4	26.5	16.3	6.9
1981	4.1	16.7	18.0	24.2	23.4	13.6	2.1	11.1	15.3	25.2	26.8	19.5
1985	2.7	11.5	12.9	19.0	22.1	31.8	2.1	8.7	10.6	16.6	22.9	39.1

1.   Less than one month.
2.   From 1 to 3 months.
3.   From 3 to 6 months.
4.   From 6 months to 1 year.
5.   From 1 to 2 years.
6.   Two years and over.

Since 1973 all Spanish governments have favoured an economic policy of inflation control to combat the economic crisis, rather than reducing unemployment. Because of this there was an increase in the dependency ratio on employed people, see Table 2.12. The final result of the increase/decrease of inequality will depend on: (a) the volume of income of employed people, the non-dependents and; (b) the positive-negative role of the fiscal and social security systems.

Youth unemployment increased considerably between 1977 and 1981, both for men (17%) and women (16%) being 18% of the total. The two intermediate groups (20 to 24 years and 25 to 54) registered an almost stable rate of activity. The rate corresponding to the group aged 55 and over fell to (14% total, 8% for males and more worrying, 30% for females).

The time spent searching for a job increased dramatically for all the unemployed, and particularly those in the 1 to 2 years, and 2 years and over categories, for both men and women. The rate was 1.5 times higher for women.

The unique global explanation for the behaviour of the indices of disparity, after the "macro-economic" analysis conducted in the three last paragraphs, is that the family acted as a shock absorber against the effects of the demographic shifts, the market failures and some macro-economic policies.

We turn now to a more "micro-economic" and disaggregated explanation of the observed income distribution.

3.   CAUSES AND SOURCES OF INEQUALITY

In this section we will consider the main factors which determine the distribution of income. In particular, the household characteristics which are likely to determine the position of the household in relation to income distribution. For this purpose, and those outlined in the Introduction, we will look at the numerical composition, the age structure, the location and geographical position of the household as well as some socio-economic criteria, such as the educational attainment of the head. The distribution of households according to these factors will help to establish the income distribution range in which the families are likely to lie.

In section 4 we shall look for any cumulative effects of these factors have on the position of the household within the distribution.

It is essential that a study of this type shouldknow the household's structure and any changes in its structure over time. This factor will be considered when discussing each of the aforementioned sections.

3.1 The Size and Composition of Households and Families

For the period under consideration (Table 3.1) the relative structure of household size seems relatively stable. However, this may disguise some quite considerable changes in the preceding period. Nevertheless, the data here shows some tendencies which are similar to those found in other European countries; there is a decrease in the number of households of six or more persons and an increase - the most significant increase - in the number of two person households. Paradoxically, households with three members now comprise a slightly smaller percentage of all households, but those with four members have increased slightly (2.97%).

Incomes increased in a systematic way with the number of persons in each household and decreased per capita for 1973 and 1981, but the decrease was systematic for 1981 compared to 1973; the disparities grew per capita although the structure of disparities were roughly stable. The most meaningful decline was the one relating to households with two persons between 1973 and 1981 (from 23 to 13.7%).

As would be expected, the dispersion between homes of one and two persons declined during the period (from being 80.92% it went to 83.07%), because of the social changes and, in particular due to the increased participation of married women in the labour market. These changes paved the way for a "size and age effect" in income distribution.[21]

For 1981 the number of households was 10,024,733 which, when divided by population, (figures according to FES) gives an average of 3.69 persons in each household; the number of earners was 15,838,473 which gives an average of 1.57 per household.

The age of the head of family (see Table 3.2) is also a very important element in explaining the household's income. A priori we might expect the age of the main earner to have an important effect on income if this income is obtained unevenly throughout the earner's life time.

Although it is not possible to infer the ageing of the population from these figures, (it has been shown in figures presented in Section 2) we only have data for 1981, it is possible to find the absolute value; the category represents 20.35% of the total, a considerable figure.

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[21]. Equivalent income for 1973 and 1981 is not considered here because the 1973 Survey included a category for 7 or more persons which resulted in non-homogeneity as previously mentioned in the text.

TABLE 3.1

AVERAGE EARNINGS BY HOUSEHOLD, PER CAPITA AND OF MAIN EARNER, ACCORDING TO THE SIZE OF HOUSEHOLD

1 PERSON = 100

	1	2	3	4	5	6 or more persons
Per household						
1973	100	161.87	231.76	264.36	284.75	323.13
1981	100	166.14	230.59	250.42	260.87	238.05
Per capita						
1973	100	80.92	77.23	66.06	56.94	46.98
1981	100	83.07	76.86	62.60	52.17	41.66
Per earner						
1973	100	120.83	149.40	165.76	158.68	150.02
1981	100	119.83	143.80	155.83	149.98	131.07

Distribution of households Per Cent

Persons

Households	1	2	3	4	5	6 and over
1973	7.74	20.18	19.37	22.19	14.83	15.71
1981	8.11	21.46	18.39	22.85	14.86	14.30

TABLE 3.2

INCOME BY AGE OF HEAD OF FAMILY

All figures for 1981

By household, per capita and per earner

Under 24 = 100	25 to 34	35 to 44	45 to 54	55 to 64	over 65
100	120.38	119.79	122.22	108.01	68.58
100	105.89	84.01	88.60	107.92	97.84
100	154.34	152.90	123.08	112.67	82.61

% of Households

2.31	14.62	19.91	23.61	19.16	20.35

Average size of household

3.3	3.7	4.6	4.5	3.3	2.3

The first impression is that the increase of household income as age increases is very low. This may simply be due to modest wage differentials occurring with age. However, it is possible that wages and salaries do rise with age but that, as the age of the head rises with his wage or salary, there is a decrease in the number of people working in the household. Up to the age of 25 both men and woman work on low wages; afterwards the wage or salary of the man usually rises and the woman joins the inactive part of the population whilst involved in child rearing. This is in accord with the big fall in women's rate of activity after the age of 24. It is difficult to know what relative importance to attribute to the two explanations. The fall after 55 is, of course, due mainly to the increasing number of pensioners who are head of households. The fall in household income after the age of 65 is particularly striking.

With per capita income the dominant factor is obviously the size of the family. As size rises the per capita income falls (up to 54); as it falls the per capita income rises. Generally, the size of the family dominates the positive effect of age in average earnings. It should also be noted that people over 65 have per capita incomes which are just higher than the average. It is very difficult to decide here whether the significant factor, in terms of welfare, is the household size or the per capita income.

The fall in income per earner after the age of 44, despite an increase in household and per capita income, may be due to the presence of a third earner (i.e. a young son) with a very low income, as there are not usually pensioners between the age of 44 and 54, apart from the usual benefits for sickness etc. After 54 there is an increasing number of pensioners and this explains the fall in income per earner here.

The Spanish data seems to fit quite well into what could be called a "household's life cycle theory": disposable incomes grow until the head of family is 45 to 55 years old and evenly decline thereafter until the 65 and over age group (i.e. retired, etc.). The largest disparity in relation to the mean is the one between the 45-54 and 55-64 age groups which exhibit a 12% change.

The lowest incomes usually correspond to the 65 and over group, and they exhibit a 32% differential in relation to the 25 year old group (taken here as the mean, i.e. equal to 100).

As would be expected, household size is largest in the middle age groups which affects the per capita indices, where maybe not only the number of children, but the age implies greater spending. These household sizes were 4.6 and 4.5, with two to three children for the 35 to 44 and 45 to 54 age groups, and here the smallest and the second smallest per capita incomes were found (even smaller than the one corresponding to the retirement group). The indices of these incomes expressed as indices were 84.88 and 97 respectively, where the mean is 100.

Thus retirement implies only a 3% "loss" of income with respect to the mean index group, the 25 year old group. There is, therefore, a strong "life cycle" feature.

The rise of per capita income for the last but one group, seems to reflect the leaving home of elder children which compensates for the absolute fall in disposable income by a more than proportional amount. However, the effect of the second son leaving is not noticed as much as the first if we observe per capita income profiles.

As already mentioned, we cannot attempt an equivalent income comparison due to the absence of published data which takes into account the household's composition. Nevertheless, in the next Table,[22] we do have the distribution of families for these categories.

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[22]. We do not have data for 1973 which thus prevents a temporal comparison.

TABLE 3.3

COMPOSITION OF HOUSEHOLDS PER CENT

	Person alone < 65	Person alone 65 +	Adults without children	Adults and 1 child	Adults and 1 children	Adults and 3 children	Rest of house- hold
1981	3.24	4.86	37.04	17.16	19.94	10.18	6.74

The Table seems to confirm the increase in, and important percentage of households without children (37.04%).

There is no longer proper family allowance policy (that is likely to directly benefit families with children) in Spain (i.e. similar to the French). The existing policy only covers residual claims with many people claiming for their retirement. In any case, its effects on household income and their budgets are almost negligible (it is probably this reason that has been used in the arguments for the abandonment of this policy). Also we can only expect it to have an offsetting effect for family size on the level and structure of incomes.

On the other hand, family size is taken into account for many other social policies, like housing and transport policies, and then it will influence the fiscal revenue side in terms of allowances.

3.2 The Labour Market, Education and Socio-Economic Categories

The level of income from the labour market can be determined by a complex interaction of skills acquired, the educational system, the socio-economic categories and the availability of work. We shall look at each of these effects on income in turn.

In 1981, on average, the difference for 1981 between a household in which the head was unemployed, and one in which the head works less than a third of the normal time (a sort of part-time work, but the meaning is not necessarily the same as is usually used in Europe), is only 16%, probably due to State support to both groups. But the most indicative difference occurs between families with the head unemployed and one in which the head is working full time, the difference in income is 60%.

The lowest incomes are those of pensioner households, these are, on average, 8% below those of the households with an unemployed head.

On the other hand, the size of households with an unemployed head (4.3) is above the national average (3.7) and also higher than those with heads working more than a third of the normal time (full time) (4.1); thus in per capita terms the unemployed have the lowest incomes.

The biggest disparities in income distribution are for the retired (44% in relation to the ones who work more than a third of the normal time. We will take this as the reference group (index = 100), with the unemployed lying close to this (a 4% additional difference if we do the analysis of the index by households) with a 28% disparity for the homes in which the head works full time.

So the data seems to suggest that redistribution policies and public transfers have a strong impact.

Looking at per capita income, the disparity is maintained for the unemployed, due to the "family effect", the part-time heads have an income which is 11% less than that of full time heads.

There is no systematic relationship between the size of household and the labour market status of its members. If we take the unemployed as a base, incomes grow, up to a point, with the "quantity of work" done, but then decline. In other words, the typical text-book case of the backward bending labour supply curve is found in Spanish households. However, most importantly, it implies that the disparity profile changes if we look at per capita incomes.

The distribution of households by labour market participation shows that this micro-economic data confirms the socio-demographic data discussed above. The percentage of unemployed heads seem to be low for those years (although probably this is the effect of the methodology employed when collecting the Survey) whereas we again appreciate the ageing of the population in the labour market "pyramid", with the retired being 24.78%.

In Spain it is well known that there is no solid structure in the labour market which offers part-time work, a fact which is confirmed by this data, which shows the high percentage of heads working more than a third, and the low percentage working less than a third.

It is also true that this data refers to a past period (1973-1981) as the economic crisis, and long-term socio-economic and cultural tendencies occurring at this time later produced changes in the behaviour of Spanish households similar to that of other European countries (see for instance Ahijado-Clapes 1987.

TABLE 3.4

DISTRIBUTION OF HOUSEHOLDS BY TIME AT WORK
AND LABOUR MARKET STATUS AND INCOME INDICES

Total	Work more than one third	Work less than one third	Unemployed	Retired Pensioner	Rentier	Others Housewives Students
			Average household's size			
3.7	4.1	3.3	4.3	2.6	2.1	2.8
			Distribution of households Percent			
100	66.08	1.9	4.41	24.78	0.005	2.32
			Index work more than one third = 100			
Per household 100		72.5	60.87	56.47	82.13	56.14
Per capita 100		89.6	58.9	89.80	161.7	84.5
Per earner 100		74.3	58.70	56.58	102.06	57.78

The increase in the number of households with two earners is a direct consequence of the rise in the labour market participation of married women, and the tendency to stop working on marriage, as had previously been seen, over the period 1973-81. These effects are both a consequence of the crisis and the changes in socio-economic behaviour. The diminishing number of homes with three earners is also a consequence of changed socio-economic behaviour. During this period despite unemployment, the trend was towards sons with remunerative work becoming independent of parent's homes.

It is quite common in countries with "low" incomes (which implies not only low monetary incomes, but also a low standard of living), like Spain, to observe the phenomenon of sending the first son, and possibly the second, into the labour market after compulsory education has been completed, but this may not happen to subsequent sons. This observation seems to be in

line with the above data.[23]

If we take as average the one earner home, it can be seen that there is a 71% disparity between these and homes with no earners, and a 64% difference between the group of 3 or more earners and the average. Quite logically the size of households grows with the number of earners and vice versa. But the disparities are reduced as the number of earners increases as at first they increase and then decline, due probably to the socio-economic behaviour described earlier.

The larger number of one earner homes (58.27%) hardly changed between 1973 and 1981, (just a 1.91 percentage point change); this is followed by the two earners group with 29.91% and a percentage change of 7.47 points. The group of three or more earners also increased, but only covered 4% of households.

All these figures do not differentiate between the sources of income that lie behind them, but we know (from previous sections) that the number of transfer-payments and mass unemployment increased, so all these features suggest strong positive action by the State, offsetting the market failures.

Turning now to the effects of education, we see that the household size corresponding to the different educational groups is more or less stable at around the national average, although illiterates tend to have smaller households (3.2 persons), which seems to be the expected result.

Human capital theory invites us to expect increasing incomes with more education although, less (more) than proportionally if incomes are better (worse) distributed.

The results obtained here will either confirm or modify those obtained for the socio-economic categories, and cross-classification is used to see how income is distributed in practice.

It is easy to appreciate that between 1973 and 1981 the number of illiterates decreased (by 13 percentage points) and the same can be said for the group of "primary studies". Curiously the number "without studies" increased quite strongly (by 32 percentage points). Maybe this is due to a rise in the share of households that have women heads if the number of women without educational attainment is higher than the number of men.

By socio-economic class, the biggest increase corresponds to the skilled worker category (100 percentage points), and the

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[23]. Again a discrepancy arises between the two Surveys; the 1973 FES only includes: 1, 2 and 3 or more earners whereas the 1981 includes an additional category for 4 or more. Obviously this limits the comparisons that can be properly made.

TABLE 3.5

EARNERS - DISTRIBUTION OF HOUSEHOLDS AND AVERAGE INCOMES

	Households without earners	Households with 1 earner	Households with 2 earners	Households with 3 earners	Households 4 or more earners
1973	-	59.41	27.76	[12.82]	
1981	0.33	58.27	29.91	8.53 [11.46]	2.29

Incomes 1981

Households without earners	Households with 1 earner	Households with 2 earners	Households with 3 or more earners	Households with 4 or more earners

Index - 1 earner = 100

-	100	166.14	230.59	264.78
-	100	83.07	76.86	52.14
-	100	119.83	143.80	145.62

category of low management also increases (59%), although in absolute terms it only represents a small part of the total.

The largest absolute values correspond to the "without studies" group, as expected, and the "primary studies" group (25% and 47% respectively for 1981, with increases of 32 and 19 percentage points respectively).

If the average (index = 100) is taken to be the "primary studies" group the larger disparities in income occur between this and the group with university degrees. The disparity was 2.6 and 2.2 times the average for 1973 and 1981 respectively. However, if this caused any increase in the inequality of income distribution it was only very slight.

The difference between the first group (illiterates) and the last (superior) oscillates between 3.3 and 6 depending on the criteria used, i.e. looking at income data by households or per capita. The indices are basically stable over time in the per capita comparison and diverge and decrease, both by homes and by earner: 5 and 3.9 and 6 and 4.4 respectively for 1973 and 1981.

TABLE 3.6

<u>YEARLY AVERAGE INCOME BY HOUSEHOLD, PERSONS AND NUMBER</u>
<u>OF EARNERS ACCORDING TO THE EDUCATION OF THE MAIN EARNER</u>

1. Illiterates.
2. Without studies.
3. Primary school.
4. Secondary school - first level.
5. Secondary school - second (high) level.
6. Skilled workers.
7. Lower management.
8. University degrees.

<u>Distribution of households 1973-1981 - %</u>

1	2	3	4	5	6	7	8
7.97	19.09	59.15	4.80	3.55	0.62	2.25	2.57
6.91	25.37	47.72	6.84	4.82	1.35	3.58	3.24

<u>Average size of household 1981</u>

3.2	3.7	3.8	3.7	3.7	3.9	3.8	3.8

<u>Incomes</u> (Indices: average = 100) <u>By household</u>

	1	2	3	4	5	6	7
1973	52.52	75.73	96.73	136.07	166.56	137.15	181.57	262.01
1981	56.62	73.15	96.19	120.12	160.98	127.96	172.04	221.90

<u>Per capita</u>
1973	64.36	77.15	94.58	132.80	162.74	128.39	183.57	245.23
1981	66.36	72.79	94.51	122.46	164.38	122.55	167.65	220.38

<u>Per earner</u>
1973	52.93	72.20	95.28	149.80	195.53	160.33	205.19	318.39
1981	55.17	69.35	97.07	130.81	166.28	141.52	177.50	244.32

Between the higher and lower groups the differences are stable for the different concepts and over time the higher is 1.3 times the lower on the whole.

Incomes for skilled workers are higher than ones for heads with High School (first grades) skills by 1.2 times and with respect to "O" levels, in a 1.2 ratio. This is fairly stable, regardless of the criteria it is based on.

The earners of those with "A" level education shows the same relationship with those in the skilled workers category as this latter category has to those with "O" levels.

These results coincide with those that correspond to the socio-economic categories (see key in Appendix C below).

Here we again have Gini coefficients for 1973 and 1981.

TABLE 3.7

GINI COEFFICIENTS

	1973	1981
1.	0.3981	0.40785
2.	0.3668	0.31329
3.	0.3007	0.19921
4.	0.3070	0.32305
5.	0.3766	0.35125
6.	0.3445	0.32639
7.	0.3299	0.31616
8.	0.2982	0.27438
9.	0.2542	0.23265
10.	0.2775	0.25567
11.	0.2945	0.22492
12.	0.4357	0.32840
13.	0.4820	0.41037

Obviously the figures indirectly confirm the relative stability observed above for all households. (It should be understood that the indices can be used: (a) to measure dispersion, between socio-economic categories or regions (see below) and, (b) dispersion for people living inside a socio-economic category or region.)

The ratio of the extreme deciles also confirms this stability.

D10/D1

	1973	1981
1.	9.29	10.96
2.	5.77	4.01
3.	6.40	4.01
4.	8.00	7.28
5.	8.08	8.95
6.	8.50	7.75
7.	5.30	6.94
8.	4.05	5.13
9.	4.75	3.94
10.	4.14	4.85
11.	6.72	3.41
12.	13.33	12.82
13.	18.23	11.06

The index decreased in 8 of 13 cases and increased in 5, but only slightly.

It is easy to observe (Table 3.8) that only four groups the 7th, 8th, 9th and the 13th increased their percentage share. The last one, "non-employed" reflects the labour market circumstances in the period after the crisis of 1973-1979, and its growth is the largest, with the difference being the highest. Taking into account the other three increases (although these were very small gains) it may mean that the other groups (the 10th, 2nd, 3rd and 4th) were hit hard by the crisis; three of them are in the primary (agricultural) sector.

The change in the structure of households reflects this, as does the migration process seen in the Spanish countryside since the mid-sixties, and which seemed to continue during the reference period. The shares of these groups fell by 18.35 percentage points on average, and this represented the largest fall, apart from group 3, directors and managers, who lost 95%, although the numbers in this group are very low.

It is quite interesting that the loss seen in group 10 (blue collar workers) was 2.93 percentage points, reflecting a change in the socio-economic structure of the Spanish population.

The biggest percentage increase was for the 13th group (non employed); this category acted as a buffer for the crisis as has been mentioned previously.

Groups 12 and 13 could hide ambiguous results due to their excessive aggregation.

TABLE 3.8

DISTRIBUTION OF HOUSEHOLDS AND AVERAGE INCOMES
BY SOCIO-ECONOMIC STATUS

1	2	3	4	5	6	7	8	9	10	11	12	13

Distribution of Households %

1973

0.79	8.13	1.71	5.87	3.20	7.97	2.94	12.86	0.81	32.95	2.42	0.88	20

1981

0.47	6.40	0.08	4.31	2.92	7.27	3.09	13.71	1.26	30.02	1.27	0.40	27

Yearly average income by household, persons and number of earners according to socio-economic category of the main earner.

Indices: average = 100

	1	2	3	4	5	6	7	8	9	10	11	12	13
Per household													
1973	145	82	79	67	192	112	247	137	138	96	138	109	74
1981	140	76	200	66	167	105	225	139	133	98	129	99	66
Per capita													
1973	136	78	84	59	172	105	221	131	129	87	122	100	94
1981	123	70	203	56	145	93	209	134	116	87	109	86	94
Per earner													
1973	145	82	79	67	191	111	249	137	137	96	138	109	62
1981	144	75	223	59	174	104	247	143	135	97	158	94	66

The average household sizes are high, the average in agriculture being 4.5 and the largest non-agricultural sizes corresponding to the Armed Forces, and non-agricultural entrepreneurs with salaried workers, which is the expected result when the cultural and socio-economic characteristics of both groups are taken into account.

The average income by household (and by earner), of a blue collar worker is close to the average and can be taken as a reference index for the disparities in income distribution.

The largest positive (to the mean) disparities correspond to non-agrarian and agrarian directors and managers (the highest category of skills) with 125 and 100 per cent disparities respectively; non-agrarian entrepreneurs follow with 67% and 40% respectively. Then come intermediate

directors and foremen (39% and 33%) and finally there are the armed forces personnel (+29%). The non-agrarian entrepreneurs without salaried workers are close to the average (the blue collar workers).

The largest negative disparities correspond to the rest of agrarian workers and to the non-employed (both with -34% disparity). This is a curious result: it suggests that it is the same, from the point of view of income, to be an agrarian worker as it is to be non-employed, and probably living on transfer payments.

There are some with even lower incomes than the "agrarian entrepreneurs without salaried workers" who are in the lowest part of the distribution; quite probably this reflects the part of the Spanish agricultural structure of "minifundio" (i.e. very small holdings).

Given the size of households for these categories the income profile is not altered, but the relative composition of incomes change if we take income per capita. Indeed the higher skilled maintain their ratio of twice the average but the non-employed only have a 6% disparity in relation to the average. It seems to suggest the "cushioning" role of the family (i.e. to a great extent the family looks after their own unemployed).

Taking account of all these facts the observed stability can be explained; apart from the role of the family itself as a shock absorber; by the effectiveness of the social security system (described above, Section 2) as a "short run" absorber during the crisis, reinforced by a long run trend derived from Education expenditure by the Government. Obviously both cushions came from the redistributional role of the State.

The education policy, as a social policy, was very strong indeed during the period, with considerable rates of growth in expenditure, and it also took account of demographic and regional considerations.

3.3 Geographical and Location Factors in household Income

The geographical and location criteria are important in Spain due to the existence of some depressed and very depressed regions and other much richer ones, in a typical Mediterranean structure, a factor which has traditionally been suggested to explain inequalities in the distribution of income.

Nevertheless, there are methodological problems for an operable classification of areas, in particular for the temporal comparisons, as the classifications in the FES changed over our reference period. As already noted, the Spanish State instituted a very large and fundamental political and administrative change in the creation of the "Autonomous States", which is reflected in the statistics afterwards.

We shall look first at the size of the municipalities.

The Gini coefficients by size of municipalities, as an index of inequality or dispersion of income distribution, was surprisingly stable so we can conclude that income distribution by size of municipality has not changed, it is neither more nor less equal.

TABLE 3.9

GINI COEFFICIENTS

	1973	1981
Up to 10,000 inhabitants	0.3804	0.38186
From 10,000 to 50,000	0.3622	0.34075
More than 50,000	0.6254 *	0.35369

* This high figure probably hides some errors in the official statistics.

And by regions.[24]

TABLE 3.10

GINI COEFFICIENTS

	1973	1981
Andalucia	0.4337	0.37176
Aragon	0.413	0.37694
Canarias	0.3742	0.36469
Estremadura	0.4269	0.37235
Galicia	0.3894	0.36469
Murcia	0.3958	0.34441
Valencia	0.6433 *	0.35651

* This high figure probably hides some errors in the official statistics.

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[24]. Taking the ratio of extreme deciles the inequality was reduced for municipalities where the index decreased for both cases.

We conclude that this disaggregate data confirms the aggregate trend commented on above; a general stability although possibly a slight increase in equality.

By municipalities' size.

D10/D1

	1973	1981
Up to 50,000 inhabitants	10.25	8.66
More than 50,000	11.05	9.37

TABLE 3.11

DISTRIBUTION OF HOUSEHOLDS BY DECILES
ACCORDING TO SIZE OF CITY & 1981

a) Up to 10,000
b) 10,001 to 50,000
c) 50,001 to 500,000
d) More than 500,000

	1	2	3	4	5	6	7	8	9	10
a)	15.4	13.2	13.3	10.6	9.2	8.7	7.8	7.1	6.4	7.8
b)	9.6	9.4	11.0	11.6	10.8	10.8	10.4	10.0	9.5	6.6
c)	6.4	8.0	8.3	9.1	10.0	10.8	10.8	11.7	11.9	11.4
d)	4.7	6.7	6.0	8.8	9.8	9.1	9.6	12.6	13.4	18.9

During the reference period small cities suffered losses of more than 50,000 inhabitants who moved to larger cities. Without additional data it is not possible to know if the rate of migration (which started in the sixties) accelerated or not. In any case, we can say that the migration process occurred between 1973 and 1981.

The average size of household was more or less constant for 1981, this was surprising as a large "average size" of household in small municipalities is normally expected as this is more characteristic of rural areas.

Although it is very difficult to state anything conclusively without additional information on income distribution by household for each category, the analysis by deciles shows that the largest percentages in the household distribution by deciles are in the 500,000 or more category, and the smallest percentages in the bottom categories.

TABLE 3.12

DECILES OF INCOME BY SIZE OF CITY

a)   Up to 10,000
b)   10,001 to 50,000
c)   50,001 to 500,000
d)   More than 500,000

	1	2	3	4	5	6	7	8	9	10
a)	2.61	4.11	5.22	6.42	7.64	8.98	10.63	12.56	15.43	23.36
b)	2.65	4.43	5.87	7.06	8.33	9.59	10.96	12.74	15.28	23.04
c)	2.68	4.55	5.93	7.14	8.28	9.43	10.71	12.42	15.11	23.70
d)	2.54	4.28	5.68	6.72	7.81	9.08	10.59	12.67	15.47	25.11

It is easy to observe that for large cities the highest decile is around the average for all households, but for the other three groups of cities the percentage is less than the average. For the four types of cities the deciles 2, 3, 6, 7, 8 and 9, have an average share of income and small cities are around the average. At the extremes, the medium sized cities have a larger than average percentage of households in these deciles.

TABLE 3.13

YEARLY AVERAGE INCOME BY HOUSEHOLD
AND SIZE OF MUNICIPALITY

average 100

1. By household	1973	1981
Up to 10,000	75.99	78.98
10,001 to 50,000 non capitals	94.51	93.18
More than 50,000	119.21	117.6

average 100

2. Per capita	1973	1981
Up to 10,000	78.93	81.00
10,001 to 50,000 non capitals	89.74	88.33
More than 50,000	119.54	119.4

average 100

3. Per earner	1973	1981
Up to 10,000	74.47	77.01
10,001 to 50,000 non capitals	92.40	90.05
More than 50,000	119.31	120.35

The stability of these indices is remarkable. The only people who have incomes above the average, (index 100), are those 50,000 plus who live in municipalities. These conclusions do not change if we refer to per capita or per earner income. Obviously, the incomes grew with the size of the municipality of residence, such that there is a difference of 1.5 times between the largest and the smallest, in terms of income. It appears that there is a strong correlation between income and size of the municipality the household is in. The differences favour the large municipalities where there are more opportunities to work in the industry and service sector.

As already mentioned, the average size of household in each type of municipality is very similar, so we cannot attribute any of the observed differences in income to this variable.

However, the level of prices is generally higher in the larger municipalities than in other areas (we have not published these indices for the cities); so, in terms of welfare, this fact can compensate somewhat for the lower incomes in smaller areas. But, on the other hand; (1) it is not easy to generalise in a country which has large disparities in the economic and social structure (i.e. consider the South-east Mediterranean cities living from tourism) and other more "continental" cities: and (2) the supply of social services both in quantity and quality is superior in the big cities.

Generally speaking, income is only one - even if a very important one - of the resources available to the family and its welfare depends on all resources, not only monetary ones. This is especially true for the countryside and rural cities where, for instance, consumption-in-kind, self-supplied goods can, in part, offset, the disparities in income.

TABLE 3.14

DISTRIBUTION OF HOUSEHOLDS BY THE SIZE
OF THE MUNICIPALITY

	Till 10,000	10,000 to 50,000	50,001 to 500,000		more than 500,000
1973	32.52	22.04		[45.45]	
1981	28.37	18.19	41.22	[53.05]	11.8

Average household size - 1981

3.7	3.6	3.9	3.8	3.6

Within the different geographical locations market forces acted quite freely and there were *no* specific policies to correct disparities which arose due to the size of the cities. The market forces were considered correct in trying to arrive at an equilibrium in the labour forces of smaller cities, which are generally located in the agricultural sector, and of the larger cities, thus enabling Spain to catch up with the rest of Europe in the process of development and industrialisation.

Now we turn to the regional considerations.

TABLE 3.15

PERCENTAGE OF HOUSEHOLDS IN EACH DECILE
BY REGION 1981

	1	2	3	4	5	6	7	8	9	10
1.	14.9	13.3	12.9	11.1	9.3	8.0	10.4	8.8	5.5	5.2
2.	9.8	8.6	7.6	16.3	9.9	8.3	8.1	15.1	8.6	7.3
3.	8.1	10.7	8.0	9.2	7.8	12.1	12.0	11.6	10.8	9.2
4.	8.1	12.3	11.0	11.0	8.9	9.3	9.7	10.1	9.6	9.0
5.	8.6	12.1	21.0	9.5	10.6	9.4	7.8	7.7	6.8	6.1
6.	5.1	8.0	8.9	10.7	10.2	11.0	11.2	13.1	9.6	11.8
7.	14.3	11.1	11.4	10.0	9.2	11.0	9.2	8.4	7.8	7.1
8.	18.6	14.2	15.3	16.4	8.6	7.1	6.7	5.2	4.5	2.7
9.	4.1	5.7	5.9	6.9	10.0	10.3	10.4	11.6	16.0	18.5
10.	8.2	8.2	11.5	12.5	11.8	9.8	10.4	9.4	9.3	8.6
11.	24.5	21.0	14.2	11.0	7.6	6.5	3.9	4.1	4.2	2.4
12.	11.1	11.8	12.0	11.0	9.6	10.4	7.9	9.2	8.9	7.6
13.	4.8	6.8	5.2	7.8	10.3	10.8	10.1	11.6	13.0	19.0
14.	11.5	9.4	15.8	12.7	10.5	11.1	9.0	7.1	6.7	5.7
15.	6.0	5.9	6.3	4.6	9.5	12.0	10.8	15.5	12.5	16.6
16.	4.1	5.1	4.9	5.9	10.7	11.6	14.9	13.0	13.4	16.1
17.	5.4	9.7	10.6	9.7	11.9	11.7	10.1	13.7	11.6	5.0
18.	8.3	11.7	11.3	9.8	7.9	8.7	9.4	9.1	10.5	12.8

Turning now to the geographical context, if we use average income as the barrier between poor and rich areas[25] and if we consider location from the angles of average income, per capita income and income per earner, we find that from the 18 regions, 7 (numbers 1, 5, 7, 8, 11, 12 and 14) (38% of households) are without any doubt in the "poverty" area (i.e. with all three indicators confirming this); in addition two more (numbers 10 and 17) are on the "poverty line", with two of the three indicators showing this. Added together the percentage of households in poor regions rises to 50%.

[25]. Generally it is accepted that the "poverty line" is situated around 30-40% below the average, but here we use the term in a more general sense.

TABLE 3.16

PER CENT OF INCOME GOING TO EACH DECILE OF HOUSEHOLDS BY AUTONOMOUS COMMUNITIES; AND GINI COEFFICIENTS, 1981.

	1	2	3	4	5	6	7	8	9	0	Gini
1.	2.54	4.12	5.39	6.62	7.79	9.18	10.85	12.79	15.41	25.26	0.37176
2.	2.35	3.89	5.36	6.83	7.95	9.26	10.72	12.49	15.45	25.65	0.33838
3.	2.65	4.27	5.72	7.15	8.62	9.79	11.16	12.69	15.42	22.48	0.33838
4.	2.88	4.33	5.44	6.56	7.75	9.32	10.69	12.59	15.62	24.77	0.36188
5.	2.62	4.26	5.51	6.79	8.03	9.20	10.51	12.43	15.25	25.33	0.36469
6.	2.89	4.59	5.89	6.97	8.07	9.20	10.45	11.97	14.73	25.19	0.34849
7.	2.44	3.83	5.15	6.42	7.72	9.22	10.85	12.79	15.71	25.82	0.38507
8.	2.62	4.27	5.24	6.56	7.85	9.08	10.57	12.65	15.52	25.59	0.37297
9.	2.82	4.69	6.09	7.25	8.25	9.39	10.79	12.36	14.66	23.64	0.33367
10.	2.70	4.55	5.86	6.89	7.87	9.00	10.48	12.22	15.14	25.25	0.35651
11.	3.01	4.49	5.35	6.37	7.36	8.73	10.36	12.44	15.77	26.06	0.37235
12.	2.61	4.22	5.43	6.65	7.85	9.36	10.76	12.86	15.71	24.49	0.36469
13.	2.52	4.38	5.79	6.77	7.72	8.94	10.42	12.46	15.60	25.35	0.36615
14.	2.66	4.59	6.01	6.95	7.99	9.38	10.84	12.52	15.31	23.70	0.34441
15.	2.49	4.33	6.07	7.18	8.07	9.15	10.14	12.07	14.95	25.51	0.35726
16.	2.85	5.16	6.48	7.49	8.35	9.26	10.47	12.17	15.24	22.47	0.31715
17.	3.35	4.95	6.36	7.61	8.68	9.86	11.43	12.83	14.94	19.95	0.29367
18.	2.42	4.03	5.17	6.40	7.59	9.21	10.76	12.84	16.16	25.55	0.38652

Only four areas (numbers 9, 13, 15 and 16, with the 18th on the "poverty line" but near to the intermediate zone), are in the higher income range, covering 22% of households. A further 22% of households are located in regions with intermediate incomes (the regions, 2, 36 and 28).

Of regions with incomes below the average the overall disparity between these and the mean is 12.63% (the largest disparity is in Extremadura with income and per capita income being 36% below average, and income per earner being 31% below. The disparity for the regions with income above the average is 16.5%, Madrid being the largest individually, with 26.24% and 29%, according to the household, per capita and earner criteria.

The difference between the highest and lowest region is 62% when looking at income (for numbers 13 and 11, Madrid and Extremadura), and a 60% per capita and per earner.

TABLE 3.17

ANNUAL AVERAGE INCOMES BY REGIONS

Index: average = 100

Region	By household	Per capita	Per recipient (earner)
1.	81.69	76.40	81.43
2.	96.10	106.71	104.52
3.	100.04	108.32	108.29
4.	97.49	114.20	96.05
5.	90.59	79.63	93.33
6.	109.37	109.95	103.86
7.	89.02	94.88	93.50
8.	72.10	74.68	77.61
9.	117.90	120.81	112.36
10.	98.49	101.72	91.03
11.	64.11	64.54	69.84
12.	90.98	88.10	87.58
13.	126.32	124.22	129.18
14.	84.35	82.92	86.17
15.	124.33	119.39	112.81
16.	121.18	119.39	112.81
17.	95.46	101.53	98.81
18.	102.89	105.65	119.03

The explanation for the disparities comes from the industrial structure of the regions. It is not possible to identify a "North-South" structure, similar to, say, the Italian one, but it is quite easy to realise that there is a "Northwest-Southeast" divide where the largest incomes lie above the axis with the only exception being Madrid, which is considered an island in the very centre of the country (see Ahijado-Clapes 1987). The differences in productivity and the rates of activity, employment and unemployment are partial explanations for the divide and these disparities.

TABLE 3.18

APPARENT PRODUCTIVITY BY EMPLOYMENT

Regional index: National average = 100

		1979	1983
1.	Andalucia	88.1	90.6
2.	Aragon	100.6	103.4
3.	Asturias	92.9	94.5
4.	Baleares	109.3	107.3
5.	Canarias	96.1	94.0
6.	Cantabria	89.1	95.6
7.	Castilla M	83.7	86.2
8.	Castilla L	86.4	90.0
9.	Cataluna	118.1	115.1
10.	Extremadura	73.0	69.1
11.	Galicia	66.0	67.7
12.	Madrid	131.8	121.7
13.	Murcia	92.4	90.6
14.	Navarra	100.7	107.5
15.	Pais Vasco	110.3	116.5
16.	La Rioja	98.1	106.5
17.	Valencia	99.9	99.4
18.	Ceuta-Melilla	–	–

TABLE 3.19

RATES OF ACTIVITY, EMPLOYMENT AND UNEMPLOYMENT BY REGION

		1979	1983	1979	1983	1979	1983
1.	Andalucia	30.70	28.27	26.23	21.63	14.5	23.5
2.	Aragon	37.45	34.52	34.84	29.65	7.0	14.1
3.	Asturias	38.60	36.38	35.53	31.46	7.9	13.5
4.	Baleares	39.69	38.69	37.02	34.20	6.7	11.6
5.	Canarias	33.80	35.61	29.74	28.23	12.0	20.7
6.	Cantabria	38.82	34.43	36.70	30.22	5.5	12.2
7.	Castilla M	33.63	29.32	30.78	24.80	8.5	15.4
8.	Castilla L	35.27	31.54	32.69	27.30	7.3	13.5
9.	Cataluna	39.02	37.94	35.56	30.62	8.9	19.3
10.	Extremadura	31.65	28.40	26.89	22.62	15.0	20.3
11.	Galicia	42.85	39.68	41.00	36.11	4.3	9.0
12.	Madrid	35.66	34.73	31.69	28.62	11.1	17.6
13.	Murcia	33.96	29.32	30.87	25.07	9.1	14.5
14.	Navarra	37.45	33.57	34.01	28.66	9.2	14.6
15.	Pais Vasco	37.94	37.09	33.89	29.68	10.7	20.0
16.	La Rioja	39.72	33.41	38.08	30.07	4.1	10.0
17.	Valencia	37.81	35.98	34.68	29.86	8.3	17.0
18.	Ceuta-Melilla	–					
	Spain	36.18	34.11	32.73	28.20	9.5	17.3

4. SUMMARY AND CONCLUSIONS

Here we shall try to summarise the main results and look to see if any of the features studied accumulate in any way to create particular situations of disadvantage for certain categories of households.

The most important feature is the stability and concentration of income distribution as measured by Gini coefficients, both in the aggregate and for several disaggregate categories. This has occurred despite changes in the sociological behaviour of the Spanish population during the period (in line with, and gravitating towards that of our European partners, i.e. ageing of the population, increase in dependency ratio etc.) and as a consequence of a more long-run trend and structural change, derived from the economic crisis and the large institutional change seen in Spain over the years studied.

Some typical features remain (such as the number of illiterates, the small labour market for part-time jobs, and

the low level of unemployment benefits in relation to other European ones). Mass unemployment is another (the most important) structural problem and this is combined with the more traditional ones.

Thus it seems that the State has had a significant role in offsetting some of the likely increases in inequality in the distribution of income which would have been caused by the economic crisis and the consequent market failures. It did this by improving the fiscal system and collection of revenue, which in itself has partially reduced some of the inequality, and by introducing a very important Welfare State policy (although this still lags behind the social security systems in use in other parts of Europe).

The household data also seems to suggest that the family plays an important role as shock absorber in many of the instances studied.

The Spanish data seems to fit in nicely with life cycle and "human capital" theories of individual income attainment but in the case of "human capital" this has been favoured by the State education policies.

The structure of disparities has, on the whole, remained stable over the period whether looking at income per household, per capita or per earner. The size of family appears to be very important in Spain, partly because Spanish households are still, on average, larger than those in most other European countries, and this has been identified as a factor in causing deprivation. The size of the family appears to be more important in determining the position of the household in the income distribution than the number of earners in the household. However, some disparities have been reduced over the period. For example, the educational attainment of the head of household creates less disparity since more people are now receiving an education.

The direct causes of poverty (especially where there are accumulative factors) are as expected: unemployment, the age of head (particularly when he/she reaches retirement), the location of the household in small towns and for the head not to have received any or much education. The advantage of this paper is that it has presented these often quoted ideas in a quantitative and systematic way.

APPENDIX

A.   Definitions and Methodology and comment on sources: the (FES).

House.   By house is understood every room or set of rooms and the surroundings that is a building or structurally separate part of a building which, by its construction, is designed for the accommodation of a family.

Household.   A household is defined as the person or set of persons living together in a family house, or part of it, taking meals together or from the same budget.

Head.   It is understood by head the member of the family whose periodic contribution - non-occasional - to the common budget is the main basis of common spending.

Income.   The sum of all earnings, monetary or non-monetary, net of taxes and other similar payments, received by each and every member of the household independently whether or not it is devoted entirely to the household common expenditure fund.

The population investigated in the Survey (EPF) is the set of households covering the whole national territory, including Ceuta and Melilla (Spanish "provinces" in Africa). The FES excludes collective households (hotels, military premises, etc.) but it includes the private households located in collective households if they have autonomy of expenditure.

The unit of sampling was family homes, according to the housing censuses (Censos de Viviendas, 1970). The FES takes as homes the room or set of rooms designated to be lived in by a family. At this point the Survey does not differentiate between a main home and a secondary one. The household is defined as the set of persons living and taking meals with a common budget.

B.   Size of samples

The sample size in 1981 was 23,972 households.   The corresponding one for 1973 was 24,251.

C.   <u>Key of socio-economic categories</u>

  1. Self-employed agriculture with employees.
  2. Self-employed agriculture without employees.
  3. High managers in agriculture exploitations.
  4. Rest (remainder) of agricultural workers.
  5. Self-employed non-agricultural with employees and professions.
  6. Non-agricultural entrepreneurs without employees and individual workers.
  7. High managers non-agricultural.
  8. Managers (medium level).
  9. Foremen (non agrarian).
10. Non agrarian workers (blue collars).
11. Army (military forces).
12. Unclassified workers.
13. Inactive.

D.   <u>The classification of regions</u>

Regions included in the 1973 and 1981 FES.

1973	1981
1. Andalucia	1. Andalucia
2. Aragon	2. Aragon
3. Canarias	3. Canarias
4. Castilla la Nueva	4. Castilla Leon
5. Castilla la Vieja	5. Castilla la Mancha
6. Cataluna Baleares	6. Cataluna
7. Extremadura	7. Baleares
8. Galicia	8. Extremadura
9. Leon-Asturias	9. Galicia
10. Murcia	10. Asturias
11. Valencia	11. Murcia
12. Vascongadas Navarra	12. C. Valenciana
	13. Navarra
	14. Pais Vasco
	15. La Rioja
	16. Ceuta-Melilla
	17. Madrid
	18. Cantabria

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THE HOUSEHOLD DISTRIBUTION OF INCOME IN THE UNITED KINGDOM

By Sarah Horrell and Jill Rubery

INCOME DISTRIBUTION IN THE U.K.

1. INTRODUCTION

This study is concerned with the changes in the distribution of household income that occurred between 1973, 1979 and 1984. The aim is both to examine changes in the overall shape of the distribution of income and to identify those characteristics of households which are important in determining the position of the household within the overall distribution. Changes in the household income distribution may be due to socio-demographic changes on the one hand (age structure, size and composition of households, numbers of workers within the household), or to changes in the level and structure of income sources (including level and structure of employment by hours, industry, occupation and location, the structure and level of welfare payments) and indeed to changes in the opportunities for different types of household to gain access to income (including changes in employment opportunities for ethnic minorities, women and non-qualified workers or for households in specific regions, and changes in eligibility for welfare payments. Household income distribution thus varies with changes in patterns of internal household organisation, in population structure, in economic structure and in the organisation of the welfare state. These factors can be expected to interact to change the extent and nature of inequality in the system of distribution. Identification of these effects and their implications for income inequalities are essential for policy formulation in a national and EEC context.

Recent work in the U.K. has focused on some of the aspects discussed above, but little has been done explicitly on the factors which predispose a household to lie in a certain part of the income distribution. O'Higgins (1985a, 1985b) and C.S.O (1983) both look at the effectiveness of the tax-benefit system in reducing the inequalities observable in the distribution of market income against a background of increasing unemployment and reduced Government commitment to the Welfare State. However, they do not specifically look at the characteristics of a household that may cause it to lie in a certain part of the income distribution. Rubery et al (1983) examine in detail the effects of inflation and the changes in employment caused by the recent recession on the distribution of income. Of the studies that do look at the factors that determine the household distribution of income most concentrate on the characteristics of low income households. The extent and causes of poverty have been historically well documented in the U.K. (Rowntree, 1902; Townsend, 1979) and have also been looked at more recently (Mack & Lansley, 1985; Van Slooten & Coverdale, 1987) so a considerable amount is known about the factors which predispose a household to being in the lower parts of the income distribution. However, little has been done to specifically look at the combination of characteristics

that enable households to lie in other parts of the distribution. The intention here is to look at all the aspects of income distribution and so have an overall view of the factors that determine the level of income for the household, the way this gives rise to the aggregate distribution of income and how this can be affected by changes in the economy, the age structure of the population and government policies. Where appropriate the previous research already mentioned will be used to supplement the findings here.

This study of the U.K. will also provide information for the cross-country comparison as here again the primary purpose is to compare the changes that are taking place in the distribution of income and identify whether these changes are associated with similar patterns of change in either the structure of households or in the structure of employment opportunities and welfare benefits.

Cross-country comparisons must also, however, be concerned with long-term differences in the structure and shape of household income distribution. These differences will arise, for example, from specific systems of welfare provision, from differences in employment opportunities and earnings relativities, from differences in participation rates and household organisation and from different systems of labour market regulation. For example, in the U.K. there is a relatively high and rising participation rate for women but associated with part-time working. This pattern has arisen, on the one hand from lack of childcare facilities and, on the other, from the national insurance system which exempts employees and employers from payments on low weekly earnings. This level and form of participation will have a very different effect on the distribution of household income associated with life-cycle and demographic factors than a pattern of full-time working for married women as in France or a pattern of relatively low participation as in Italy. (Rubery, 1987.)

The definition and significance of employment categories also varies between countries. For example the U.K. workers laid-off or made redundant are not kept on employers' pay rolls as in Italy but are counted as unemployed. Self-employment is another factor whose importance is likely to differ between countries. In the U.K. a self-employed person pays tax and National Insurance contributions at roughly the same rates as they would as an employee. There is no additional payment to be made for being self-employed as there is in France, for instance. Thus there is likely to be a wider range of jobs in which people can be self-employed covering the whole earnings range. Being self-employed in the U.K. does not necessarily mean having earnings higher than the average as it would make it worthwhile if additional National Insurance payments had to be made. Thus attention must be paid to the role of these specific forms of labour organisation, welfare payments, household organisation and cultural, social and regional factors if the determination of the income distribution in different countries is to be understood.

1.1   The Data

In this study the household is chosen as the income unit to be studied. This is chosen in preference to the individual or the tax unit as these both omit certain sectors of the population who are either no receivers of income or have income which is not subject to tax. Furthermore, the income of the household is a more appropriate way of looking at the standard of living enjoyed by the members of the household. Whilst it cannot be assumed that all members of a household have equal access to, or receive equal benefits from the income coming into the household, it is unlikely that there are many multi-person households where the income earners are the sole beneficiaries of this income, so the total income of the household would, in general, be the most adequate proxy for looking at the standard of living enjoyed by· each of its members. Obviously when considering standards of living household size needs to be taken into account and this is done by looking at either per capita income or equivalent income; income weighted by the number and ages of people in the household, thus allowing for some economies of scale in shared households and differential needs; where appropriate.

Having chosen the income unit to be looked at the income concept also has to be chosen. Income has been defined as "the value of rights which a person might exercise in consumption without altering the value of his assets."[26] However, this is an ideal definition and most available statistics on income do not include capital gains or income in kind as part of the income available for consumption, therefore a narrower definition of income will have to be used. The time period over which income accrues also has to be considered. there is evidence to show that life-time inequality of income is not as great as the inequality of income across the population at a point in time.[27] However, data on income over a life-time would only be available from tax returns and a considerable amount of extrapolation of future income trends for present generations would be necessary so this is not considered a suitable income concept. Therefore, the income concept it is intended to use here is that of income coming into the household from earnings, social security benefits, investments, annuities, pensions, subletting and imputed income from owner occupation,[28] viewed at a point in time, in this case, in a normal week with income that accrues over a longer period being suitable adjusted.

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[26].   A. B. Atkinson ˙Poverty and Inequality in Britain' in Wedderburn p.46.

[27].   Ibid

[28].   For definitions of what is included in each of these sources of income see Appendix 2.

The data source that has been chosen to look at income distribution is the Family Expenditure Survey (hereafter FES). This is chosen in preference to the Inland Revenue Survey, which forms the basis of the Survey of Personal Incomes, as the IR survey is based on the tax unit and therefore excludes incomes not assessable for tax, and those who fall below the tax level. It also gives very little other information on household characteristics and is difficult to compare over different years, as coverage alters with changes in tax laws and allowances. However, it does have the advantages that it uses a large sample and has a 100% response rate. the FES conversely covers all households and most types of income[29] and also looks at various household characteristics in conjunction with income. However, it has a small sample of about 11,000 households and a 70% response rate which is believed to involve biases of over-representation of families with children and under-representation of households with sick and old people and of the highest households.[30] It is also prone to certain forms of understatement of income, in particular understatement of self-employment income and investment income,[31] but it has been estimated that, on average, FES household income is about 12.5% higher than the income derived from looking at tax returns[32] and despite its problems Atkinson and Micklewright (1982) concluded from their study of the deficiencies of FES income data that "our findings lend considerable support to the view that the FES represents a valuable source of data on incomes".[33] Therefore it has been decided to use the FES data for this study on income distribution.

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[29]. It does not include income in kind and capital gains.

[30]. Family Expenditure Survey 1984.

[31]. Atkinson and Micklewright (1982) compared the income declared in the FES with aggregate incomes given in the National Income Blue Books for the years 1970 to 1977. their main findings were that aggregate earnings were 5-10% below the Blue Book estimates, self-employment income as some 30% below the Blue Book estimates and income from investments fell considerably short of those in the Blue Books. Some of these short-falls are thought to be due to under reporting and under-representation of the higher income receivers, the top 1% of which are thought to be under-represented by 30-50%. Occupational pensions and social security benefits are the same as the Blue Book estimates when adjusted for differences in definitions and the biased responses of families with children and the old and sick.

[32]. Sandford (2977) p.132

[33]. Atkinson and Micklewright (1982) p.41.

2. TEMPORAL COMPARISON OF THE DISTRIBUTION OF INCOME:
    1973, 1979 AND 1984.

    2.1 Changes Affecting The Income Distribution

        The temporal comparison of the distribution of income is
    set against a background of significant changes in the economy,
    the age distribution of the population and changing government
    policies towards both wage and income increases and the role of
    the Welfare State.

        1973 was the peak of a period of continuous economic
    growth with low levels of unemployment and some implementation
    of wage controls due to worry about inflation. By 1979 there
    had been the oil crises which resulted in a period of rapid
    inflation, and had disrupted the steady economic growth seen
    previously, and unemployment had begun to rise. Attempts were
    made to curb inflation using wages and incomes policies and the
    Social Contract of the Labour Government of 1974 to 1979. This
    not only tried to control the rate of increase of wages and
    salaries but also had a redistributive effect built in.
    However, these wage increases restrictions all broke down
    resulting in further rises in wage inflation (Tarling and
    Wilkinson, 1977).

        In 1979 the Thatcher Government was elected with its
    strong Monetarist policies. These managed to curb the
    increasing inflation of the 1970's but at the high cost of
    dramatically increased unemployment. This was set against a
    background of recession and a Government commitment to decrease
    taxation and public expenditure and to reduce the role of the
    Welfare State. At the same time, there has been an increase in
    the proportion of the population that are retired and a
    decrease in the proportion of children. All these factors can
    be expected to have significant effects on the distribution of
    income. Before looking at the distribution of income however,
    it is informative to look in more detail at the changes
    occurring during the period.

        2.1.1   Incomes Policies

        Attempts to control increases in income started in the
    1960's although these were largely through voluntary
    agreements. Under the Conservative Government of 1971 to 1974
    compulsory pay restrictions were brought in. These did little
    to stem the increase in wages in the long-term, as a sharp
    increase in wage inflation was seen in 1974 when the
    restriction was removed.

        The Social Contract, introduced by the Labour Government
    in 1975 and in operation until 1979, was a voluntary agreement
    with the unions and was seen to have inhibited wage increases
    till near the end of the period when dissatisfaction with the

wage bargaining mechanism and the gradual erosion of pay differentials caused the unions to concede to their members wishes and not adhere so strictly to the voluntary agreements, resulting in a period of increasing wage inflation. Under the Thatcher Government incomes policies have not been implemented.[34]

A summary of the various incomes policies and their effects on wage rate and earnings increases is given in Table 2.1. It can be seen that particularly those incomes policies that have the effect of narrowing differentials will affect the overall income distribution.

2.1.2   Employment an Unemployment

Throughout the period there have been changes in the numbers employed and unemployed and the percentages of males and females in employment. Some of these are the result of continuing trends, others the result of recession. Table 2.2 shows that the working population has increased throughout the period although the size of the employed labour force has decreased due to the large rise in unemployment during the recent recession.

The distribution of employees by sex reveals an increasing proportion of females as a percentage of all employees and a decreasing proportion of males. These tendencies are reflected in decreases and increases in the absolute numbers as well as the relative proportions and are the continuation of a long-term trend. The lesser number of males is attributed to earlier retirement and a longer time spent in full time education. The increasing number of females is attributed to the increased availability of work and the growing trend in participation. This latter tendency is likely to have increased household income due to the addition of a second income earner.

Even in the recent recession married women's participation has continued to increase although the general increase in unemployment has meant that this has not resulted in an increase in the numbers employed, instead the number of married women that are employed in 1984 is virtually the same as the number employed in 1979, which itself was a peak year for married women's employment. (Labour Force Sample Survey). The increase in unemployment observed over the period is likely to affect the distribution of income and increase inequality if the unemployed increase the numbers in the lower ranges of the income distribution.

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[34]. Although there have been cash limits on public sector employees pay increases resulting in lower increases in public sector wages.

TABLE 2.1

PAY RESTRICTIONS 1973-1979

Government	Year	Pay Restrictions	Implemen-tation	Results: percentage Wage rates	Year to Year changes: Earnings
	[1972-3	Freeze	Compulsory	13.8	12.9
Conserva-tive	[1973	£1 + 4%	Compulsory	13.7	13.5
	[1973-4	7% or £2.25 + threshold payment	Compulsory	19.8	17.8
	[1974-5	Maintenance of real wage only	Voluntary	29.5	26.5
Labour's Social Contract	[1975-6	£6 maximum	Voluntary	19.3	15.5
	[1976-7 [	5% - £2.50 min. £4 maximum.	Voluntary	6.6	10.2
	[1967-8 [	10% average earnings guideline	Voluntary	14.1	14.5
	[1978-9	5% average earnings guideline	Voluntary	15.0	15.6

Source: C. Pratten. Applied Macro-economics. P.241.

TABLE 2.2

DISTRIBUTION OF THE WORKING POPULATION AT JUNE IN EACH YEAR

G.B. Thousands and Percent

Year	Working[35] Population	Employed Labour Force		Unemployed[36]		Employees by sex as % of all employees		Employees by sex as % of all working population	
		Thousand	% of working pop.	Thousand	%	Male	Female	Male	Female
1973	25547	24972	97.7	575	2.3	60.8	39.2	53.9	34.8
1979	26609	25375	95.4	1234	4.6	58.2	41.8	50.6	36.4
1984	27006	23976	88.8	3030	11.2	56.0	44.0	43.8	34.5

Source: Monthly Digest of Statistics.

2.1.3 Age Structure of the Population

Throughout the period the total population has grown slightly and increases in the numbers of retired have occurred. There has also been an increase in those of working age and a decrease in the number of children. The changing age structure of the population will affect the distribution of income if pensioners are to be found in particular deciles; specifically if pensioners tend to have low incomes an increase in the number of pensioners will increase the inequality of the income distribution.

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[35]. Working population is here defined as the sum of the employed and the registered unemployed.

[36]. Unemployed are excluding school leavers. The figures in 1984 are likely to be understated due to Government changes in definition, such as some men over 60 no longer having to sign on, and the number of women who don't register as they are ineligible for benefits.

TABLE 2.3

AGE DISTRIBUTION OF ESTIMATED POPULATION: U.K.

At June each year.   Thousands and Percentages.

Year	Total Population	Aged 0-14		Aged 15-64		Aged 65 and over	
		Thousands	%	Thousands	%	Thousands	%
1973	56210	13434	23.9	35187	62.6	7645	13.6
1979	56227	12089	21.5	35873	63.8	8265	14.7
1984	56488	11015	19.5	37113	65.7	8360	14.8

Source: Monthly Digest of Statistics.

The dependency ratios[37] show that the dependant population has decreased in relation to the working population thus the numbers that are supported both indirectly through the tax system and directly should have been reduced.   However, this reduction is not necessarily due to a decrease in the numbers of the young and retired in relation to the numbers of those of working age, instead it could be due to the increase in married women's participation which has reduced the number of dependents and increased the size of the working population. These ratios show that between 1979 and 1984 the dependency ratio has increased so that an increased number of people are now dependant on each person in work.   If these `dependents' have lower incomes than those in work increased numbers of them may result in increased inequality in original and, possibly, gross income, although this will depend on the structure of the tax-benefit system.

TABLE 2.4

DEPENDENCY RATIOS

Year	Total population/ Working population	Total population/ Working population
1973	2.20	2.25
1979	2.11	2.22
1984	2.09	2.36

Source: Monthly Digest of Statistics.

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[37].   Dependency ratio = total population/working population.

2.1.4   The Welfare State

The distribution of gross income and disposable income will be affected by changes in government policies relating to transfer payments.   Labour Governments traditionally try to reduce inequality in income through the tax-benefit system and Conservatives try to give a larger role to the market in determining income distribution.   However, the extent to which a government can achieve these objectives is severely limited by other factors such as the number of pensioners, children and unemployed which determine the numbers of benefits to be paid out, although the total expenditure can be affected by the rates set by the government.

In 1979 it was the final year in office of a Labour government committed to reducing inequality of income so it is likely that benefit payments would be relatively high.   In 1984 there had been five years of a Conservative government who were committed to reducing public expenditure, and although high unemployment and an increased number of pensioners increased the total amount paid out, policies to reduce the amount received by an individual were implemented.

Such policies included the abolition of earnings related supplements for all short-term benefits from April 1981, the cutting of housing benefits, such as pensions, and earnings, so that these increase in line with inflation only, and the value of child benefit has not been maintained, this has been at its lowest level in real terms since the war.   It has been estimated that these benefit cuts amount to some £1600 million throughout the Thatcher government's first term in office.[38]

Table 2.5 shows the increasing number of households dependant on benefits. These cuts combined with the increasing number of households dependant on benefits in likely to increase the observed inequality of income between 1979 and 1984.

In summary, between 1973 and 1979 there were various changes which are likely to increase the inequality in the distribution of household income. These include the increasing number of pensioners and the slightly increased numbers of unemployed, which would swell the number of low income households, and the increased labour force participation by married women, which tends to raise the number of high income households.   However, the increase in inequality of original income caused by these factors is likely to be partially offset by incomes policies which reduced differentials; the reduction particularly occurring between those with an those without educational qualifications.[39]

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[38].   Mack and Lansley (1985).

[39].   Pratten (1985) p.242.

TABLE 2.5

GOVERNMENT EXPENDITURE ON TRANSFER PAYMENTS AND
NUMBER OF RECIPIENTS OF CERTAIN BENEFITS. G.B. THOUSANDS

Year	Amount spent on current grants & subsidies £000 1975 prices	Transfer expend. as % total expend iture	Persons in receipt of:				Family Income supp. (famil- ies)	Child[40] benefit (children)
			Unemp- loyment benefit	Retire- ment Pensions	Unemp- loyment Supp. benefits	Pension- supp. benefits		
1973	11837	26.9	247	7936	742	1732	101	11532
1979	16568	32.1	432	8750	484	1846	76	13208
1984	19144	34.4	974	8999	2289	1687	206	12593

Source: Economic Trends and Monthly Digest of Statistics.

Between 1979 and 1984 increased unemployment and numbers of pensioners is likely to have increased inequality in original incomes and the reduction in levels of many transfer payments, which more households are dependant on, is likely to have contributed to an increase in the inequality of gross income.

2.2 The Distribution of Income

The data from the FES on the distribution of income by decile[41] is shown in Tables 2.6 and 2.7, diagrams 2.8 and 2.9, and the resulting Gini coefficients are shown in Table 2.10. It can immediately be seen that there was a slight increase in the inequality of original income[42] between 1973 and 1979

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[40]. Child tax allowances and family allowances were replaced by child benefit between April 1977 and APril 1979.

[41]. The deciles have been derived from published data given in terms of mean income and number of households within a range of gross weekly income by straightforward linear interpolation. Error seems to be small (around 1%) and whilst other methods of interpolation could be used this would not be suitable for other characteristics of households to be looked at in conjunction with income where the distribution within decile is not known.

[42]. Original income is all income received from the market before National Insurance contributions and tax are deducted i.e.: gross income less social security benefits.

although gross income[43] remained much the same. Between 1979 and 1984 there was a large increase in the inequality of both original and gross income.

Between 1973 and 1979 the increase in inequality in original income is reflected in the percentage of income going to the bottom deciles. Each of these deciles had a reduction in the percentage of original income they received whilst those in the upper half of the distribution gained. This is quite surprising in view of the incomes policies during the period. It would seem that the effects of these policies were outweighed by the increasing numbers of pensioners and unemployed who are likely to swell the numbers of those receiving low market incomes. Furthermore, the increased labour market participation of married women over the period may have added to this inequality as it will increase the number of households with higher incomes due to the presence of two earners. It is also likely to increase the differentials between households with two earners as women's contribution to household income increases as the husband's income goes up.[44] This then would tend to exacerbate the differences of incomes of households that may already be due to the differences in husband's earnings and socio-economic status. Inspection of the percentage of gross income going to each decile in 1973 and 1979 shows that although there is very little change in overall inequality between the years, there does seem to have been some reduction in the percentage of income going to the top decile, and an increase in the percentage going to the bottom quintile, this then would tend to suggest that the benefit system had been quite effective in improving the lot of those at the lower end of the income range and particularly in negating the effects of the increased inequality in original income.

Between 1979 and 1984 the story is rather different. The increased inequality in original income is seen to be a result of a fall in the percentage of income received by each of the bottom seven deciles and an increase in the percentage going to the top three. The bottom 50% of households only received 15.3% of total original income in 1984. This reflects mainly the great increase in unemployment and, to a lesser extent, the increasing number of pensioners.

The deciles of original income are categorised by gross normal weekly income of household, whilst this may not be completely accurate as some households may change decile if categorised by the income concept being studied, information to verify this is not available.

[43]. Gross income is all income received by the household before the deduction of tax and NI contributions but including social security benefits.

[44]. For further discussion of this see Section 3.3.2.

TABLE 2.6

PERCENTAGE OF INCOME GOING TO EACH DECILE

Decile (arranged by gross income)

	Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Gross Income	1973	2.19	3.26	5.09	6.93	8.27	9.96	11.10	12.90	15.91	24.41
	1979	2.25	3.28	4.70	6.58	8.29	10.12	11.54	13.33	16.71	23.21
	1984	1.67	3.02	4.23	6.03	7.70	9.66	11.47	13.85	17.30	25.0S
Original Income	1973	0.45	1.35	3.92	6.82	8.48	10.31	11.69	13.60	17.03	26.3€
	1979	0.43	0.98	2.94	6.07	8.28	10.62	12.32	14.38	18.29	28.6S
	1984	0.25	0.91	2.01	4.82	7.26	9.95	12.14	15.10	19.20	28.3S
Disposable Income	1979	2.38	3.99	5.41	7.06	8.63	9.64	10.99	13.40	16.53	21.97
	1984	2.34	3.65	4.97	6.63	8.06	9.70	11.34	13.35	16.42	23.53

TABLE 2.7

PERCENTAGE OF INCOME GOING TO THE BOTTOM 50% OF HOUSEHOLDS

Year	Gross Income	Original Income	Disposable Income
1973	25.7	21.0	—
1979	25.1	18.7	27.5
1984	22.7	15.3	25.7

TABLE 2.10

GINI COEFFICIENTS

Gross Income:	1973	0.3416
	1979	0.3424
	1984	0.3769
Original Income:	1973	0.4077
	1979	0.4268
	1984	0.4711
Disposable Income:	1973	0.3168
	1984	0.3379

Diagram 2.8

Lorenz Curves of Original Income, 1973, 1979 and 1984.

Cumulative percentage
frequency of income

Cumulative percentage
frequency of households

Key:
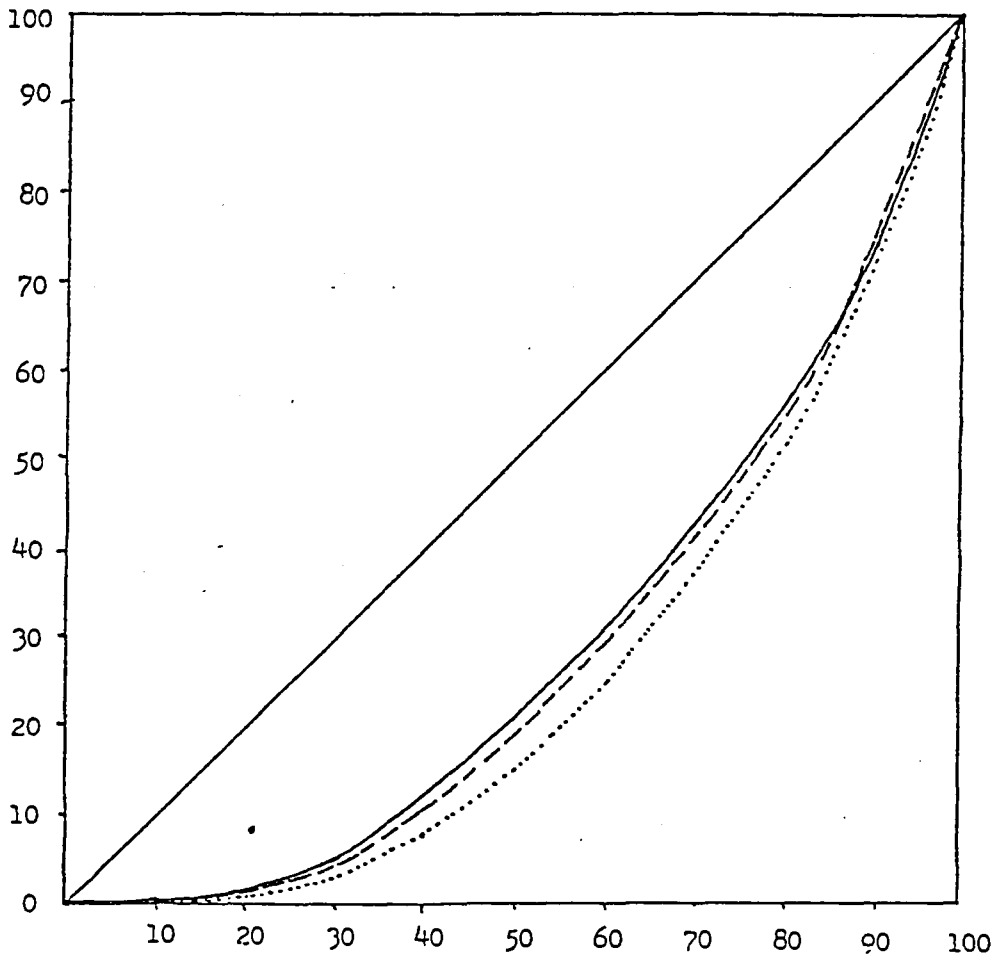
—————— 1973

— — — — 1979

·········· 1984

Diagram 2.9

Lorenz Curves of Gross Income, 1973, 1979 and 1984.

Cumulative percentage
frequency of income
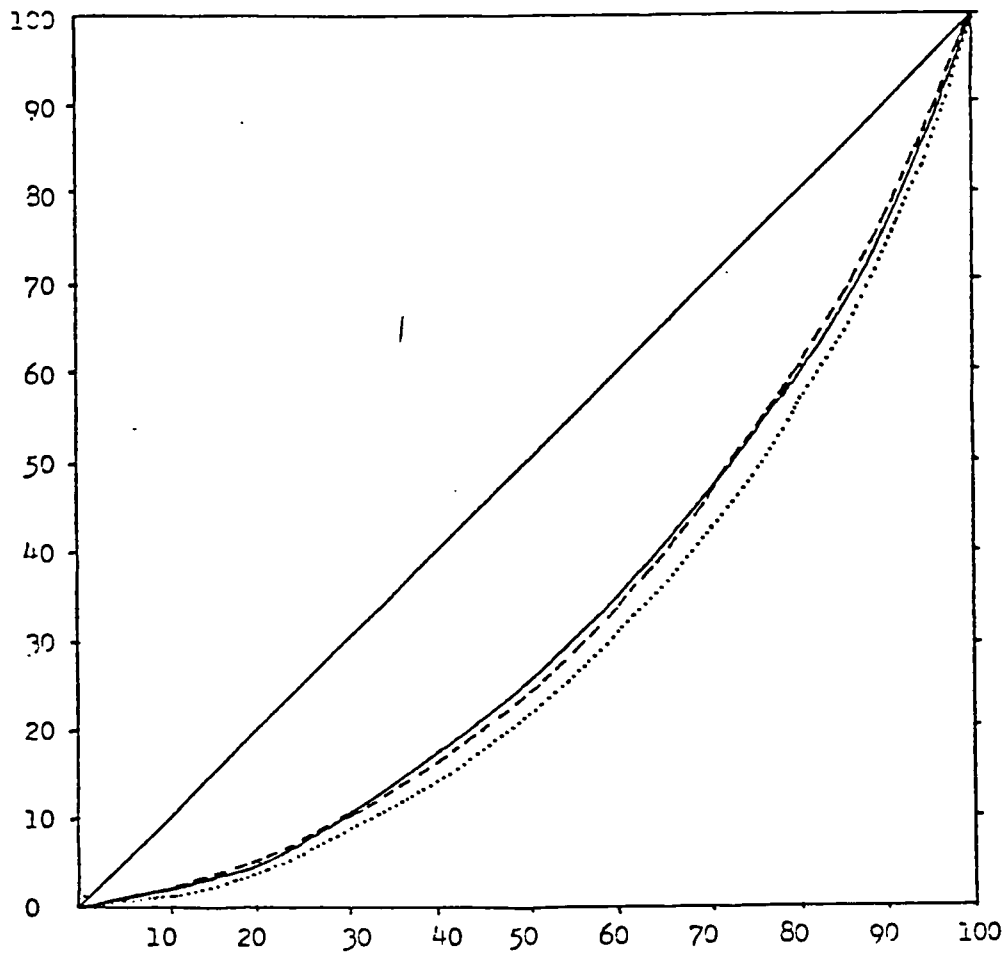
Cumulative percentage
frequency of households

Key:

――― 1973

― ― ― 1979

·········· 1984

The changes in gross income between 1979 and 1984 reflect exactly the same patterns as the changes in original income, the bottom seven deciles have become worse off and the top three better off and the bottom half of the distribution have less than a quarter of total gross income. This shows how the cuts in benefits have aided the process of increasing inequality, as the benefits are no longer able to keep the income distribution at the same level of inequality as seen previously. Thus it would seem that those in work and at the higher end of the income distribution are becoming better off, whilst those at the lower end are likely to be retired or unemployed and they are becoming worse off.

The changes in disposable income[45] between 1979 and 1984 also show an increase in inequality, thus the tax system is doing little to reduce the increased inequalities in original and gross income. However, the components of disposable income have changed between the two years so are not directly comparable.[46] Even so, this period has been one in which the standard rate of tax has been reduced and the burden of tax on the highest paid has fallen whilst the effective levels of tax on the lower paid have increased. It has been estimated that the share of income of the top 1% of households has risen over this period and this is the first time their share has risen since 1949, also it is estimated that the higher income households have gained about £2600 million between 1979 and 1984 from tax concessions.[47] Therefore it is likely that there has been a considerable increase in the inequality of disposable income.

In summary, there is considerable inequality in the distribution of household income in the U.K. and this inequality has been aided during the first term in office of the Thatcher government through increasing unemployment, reductions in benefits to the increasing number of households that are dependant on them, reductions in the tax rates on the better off and a greater tax burden on those at the bottom end of the income distribution. the changing age structure of the population has also added to these effects.

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[45]. Disposable income is gross income less tax and National Insurance contributions. Data on this is only available for 1979 and 1984.

[46]. Disposable income fell for mortgage holders between 1979 and 1984 due to the introduction of a mortgage interest relief at source system in 1983. For further details of the effect of this on disposable income see Appendix 3.

[47]. Mack and Lansley (1985).

TABLE 2.11

AVERAGE TAX RATES ON MARRIED MEN WITH TWO CHILDREN
UNDER 11 AT DIFFERENT LEVELS OF INCOME

	half average earnings	quarters average earnings	average earnings	one and a half times average earnings	twice average earnings
1974/5	7.4	17.5	22.6	26.7	28.3
1978/9	10.5	18.8	23.6	28.3	29.4
1979/80	12.4	19.7	23.5	27.0	27.7
1980/1	13.7	20.7	24.5	27.9	28.5
1981/2	16.1	22.6	26.2	29.9	30.1
1982/3	16.0	22.8	26.5	29.4	30.7
1983/4	15.4	22.3	26.1	29.1	30.4
1984/5	14.6	21.9	25.8	28.2	29.7

Source: Rubery et al (1986) Table 3.

2.3 **Causes of the Changes in the Distribution
of Income**

Some of the factors that have been suggested may be
instrumental in the greater inequality observed in the income
distribution can be further investigated by looking at the
changes in certain household characteristics by decile.

2.3.1   **The Increasing Number of Retired
Households**

Table 2.12 shows that the percentage of households with
retired heads increased between 1973 and 1984.[48] This increase
is obviously due, in part, to the increasing numbers of retired
households, but the increase in the bottom quintile of
households with no worker, accompanied by the decrease in the
number of retired households in this quintile, would suggest
that the unemployed and those dependant on State benefits are
to be found at this lower end of the distribution.   The
percentage of households with unoccupied heads increased

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[48]. The percentage of households with retired heads in
1979 has not been considered due to an anomaly in the published

dramatically overall and within each decile between 1973 and 1984.[49]

The vast majority of the unoccupied heads of household are to be found in the lower half of the income distribution and particularly in the bottom three deciles. The percentage of heads of households that are employees out of a job are given for comparison. However, these figures show very little and obscure the increase in unemployment in the economy due to a change in definition.[50]

The definition in 1984 means that many of the unemployed are to be found in the unoccupied group, therefore this is the most representative category of the unemployed. Thus it seems that those to be found at the lower end of the income distribution are the unemployed and retired, the increases in both these between 1973 and 1984 will lead to greater inequality in the overall distribution of income as there will be a larger number of people on low incomes.

2.3.3 The Increase in Labour Force Participation of Married Women

It was suggested that the increased labour force participation of married women may affect the distribution of household income and make it more unequal if women were contributing more to household income in the higher deciles and less in the lower ones. This would help explain the increase in original income inequality found after a period of incomes policies designed to reduce this.

Table 2.14 does not show the relative amounts contributed to household income by working married women in each decile but it does show a slight increase in participation between 1973 and 1979 and the very high concentration of the households with married women working in the top half of the distribution. This concentration was higher in 1979 than in 1973 and therefore may well have affected the distribution of original income.

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[49]. The figures for 1979 have again been omitted due to some inconsistency in the numbers categorised as retired or unoccupied.

[50]. In 1973 employees out of a job were considered as workers unless they had not worked for more than five years, in which case they were counted as unoccupied. For 1979 and 1984 there is information on the percentage of employees that are employees out of a job, however, they were only counted as such if they had been out of work for less than five years in 1979 and less than 1 year in 1984, otherwise they were considered unoccupied. Data for the two years, therefore, are not comparable. Furthermore, unemployed school leavers who had never worked were counted as unoccupied in 1984.

TABLE 2.14

MARRIED WOMEN WORKING AS A PERCENTAGE OF THE HOUSEHOLDS WITH MARRIED WOMEN IN EACH DECILE

Decile (arranged by gross income)

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
1973	–	–	–	–	–	–	–	–	–	–	53.6
1979	8.2	8.1	17.1	37.3	46.2	59.3	67.7	74.9	77.2	74.1	56.3
1984	18.5	9.4	13.8	28.7	39.0	52.5	60.6	64.2	76.1	74.5	51.7

In 1984 the FES shows the effect of high unemployment, with the percentage of households with married women where the woman is working having fallen in most deciles, exceptions being the bottom quintile and top decile, the overall percentage having also fallen. However, this does not agree with information from other sources. For instance, the Labour Force Sample Survey, where the numbers of married women in employment remained fairly constant between 1979 and 1984. A possible reason for this discrepancy is the increasing ageing population as the number of married women in these older households will increase, but the likelihood of them working will be less. However, the findings of the FES with regard to the increasing numbers of working married women in the bottom quintile is still of interest as this reflects the changing age distribution of the income distribution; the unemployed that are moving into this quintile are younger than the retired households previously found here, so there are now more married women of working age in these deciles.

2.4 The Source of Income

Table 2.15 shows that the most important sources of income in all years are wages and salaries and social security benefits, for all households taken together. The decline in importance of wages and salaries and increase in importance of social security benefits between 1973 and 1984 can be partly attributed to the increases in unemployment and number of pensioners, as already discussed. The changes in self-employment income correspond to the changes in numbers classified as self-employed in the survey.[51] Investment income decreased in importance between 1973 and 1979, which may in part be due to the collapse in the Stock Market, and consequent large fall in the FT index in 1974. The importance of annuities and private pension plans has increased over the

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[51]. There will be an increase in this in 1984 due to the change in definition of self-employed, see Appendix 3.

period as increasing numbers of those entering retirement have invested in these.

TABLE 2.15

PERCENTAGE OF GROSS INCOME MADE UP BY INCOME FROM VARIOUS SOURCES

Source:	All Households		
	1973	1979	1984
Wages and salaries	61.3	56.5	49.6
Self-employment	5.3	4.0	4.9
Investments	3.1	2.8	3.4
Annuities and pensions	3.4	3.6	4.9
Social security benefits	21.3	26.4	30.6
Sub-letting and imputed income from owner-occupation	4.3	5.1	5.4
Other sources	1.4	1.5	1.2

The largest changes within, and between deciles, between 1973 and 1984 have occurred for wages and salaries and social security benefits (Table 2.16). From the 4th decile upwards wages and salaries constitute the source of the majority of household income. Between 1973 and 1979 the percentage of income from wages and salaries fell for all deciles except the 10th. Between 1979 and 1984 they fell for every decile. This partly reflects the increasing importance of other sources of income and the increase in non-employed people. Social security benefits increased in importance for all deciles between 1973 and 1979, this may partly be a reflection of increased levels of benefits and of the switch from child tax allowances to child benefits as well as the changes already discussed. Between 1979 and 1984 the importance of benefits again increased for most deciles, the importance for the top decile fell, and the first three deciles became largely dependant on benefits. Again this reflects increased unemployment and numbers of pensioners.

The distribution of other sources of income does not vary much between the years. The distribution in 1984 (Table 2.17) shows that self-employment income is most important in the 4th and 10th deciles, constituting a similar percentage in each of the intermediate deciles. This reflects the fact that self-employment is not just a form of employment confined to the higher income earners as, in the U.K., unlike some other European countries, the self-employed person only has to pay his tax and 'employees' National Insurance contribution, he does not have to pay the employer's part of National Insurance. This then means that there are no statutory additional costs for a person who is self-employed as opposed to employed, and so the self-employed range through small businessmen, professionals, craft workers (particularly in construction), to casual workers or homeworkers.

TABLE 2.16

PERCENTAGE TO EACH DECILE FROM VARIOUS SOURCES OF INCOME

Decile (arranged by gross income)

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th

Wages and Salaries

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
1973	2.9	12.2	44.6	69.3	77.6	80.5	82.1	83.8	84.1	75.4
1979	2.2	6.4	28.0	58.5	69.7	76.1	79.9	81.1	83.2	80.4
1984	1.7	5.3	14.6	40.5	58.2	67.9	72.8	77.3	81.1	76.6

Social Security Benefits

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
1973	82.5	64.2	30.7	10.7	6.7	5.9	4.1	4.0	2.7	1.8
1979	83.8	74.4	46.7	19.4	12.4	8.1	6.5	5.5	4.1	3.1
1984	89.1	74.5	59.6	31.8	18.8	11.2	8.7	6.0	4.2	2.6

The percentage of investment income is fairly similar in all deciles, although the actual amount contributed from this source will rise with the decile. It constitutes the highest percentages in the 3rd and 10th deciles, possibly reflecting the numbers of retired households and the better off, respectively, who are more likely to have investments. Annuities and pensions are particularly important to the 3rd, 4th and 5th deciles, again reflecting the concentration of pensioners with higher incomes in these deciles; there will be many in the lower deciles who only receive state pensions. Sub-letting and imputed income from owner-occupation reflects home ownership and this is important in all but the first decile.

Overall, then it seems the most important sources of income in determining where a household will lie within the income distribution are the amounts received from earnings and the dependance on social security benefits. However, all deciles receive amounts of all sorts of income, although the importance of each source of income in making up total household income varies across deciles, therefore "knowing the form in which a pound is received does not unambiguously locate the recipient household in the distribution of income by size".[52]

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[52]. Borooah and Sharpe (1986) p.452.

TABLE 2.17

DISTRIBUTION OF OTHER SOURCES OF INCOME, 1984

Source:	Decile (arranged by gross income)									
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Self-employment	1.2	2.1	3.1	7.3	5.4	5.8	6.4	4.7	4.2	8.9
Investments	2.0	3.4	4.5	4.1	3.7	3.6	2.6	2.8	2.9	4.5
Annuities & pensions	2.6	5.5	9.1	8.4	6.7	5.2	3.2	3.5	2.2	2.4
Sub-letting & imputed income	2.2	7.5	7.6	6.3	5.8	5.3	5.2	5.1	4.9	4.5
Other sources	1.2	1.8	1.6	1.5	1.4	1.0	1.2	0.8	0.6	0.5

2.5 Equivalent Household Income

Equality in the household distribution of income would not imply equal income for each household, as then those households with least members would have higher standards of living. Instead, a concept of equivalent income has to be used. Equivalent income is the re-weighting of household income according to the number and status of members of the household, taking account of the 'economies of scale' to be gained from having a multi-person household and the lower cost of looking after a child compared to an additional adult.[53] Per capita income weighted solely by the number of people in a household, does not take these factors into account. Equivalence scales are also important when discussing changes in the age structure of the population. Although an increase in the numbers of single pensioners on low incomes may have increased, thus causing greater inequality in the household distribution of gross income, this would not necessarily mean a greater inequality in the distribution of equivalent income, as these

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[53]. Weightings commonly used in the U.K. are those of the DHSS Economic Advisors Office. They are:

married couple, wife not working		1.00
single adult, householder		0.61
2nd adult, non-householder		0.46
3rd adult, non-householder		0.42
child	aged 0 - 1	0.09
	2 - 4	0.18
	5 - 7	0.21
	8 - 10	0.23
	11 - 12	0.25
	13 - 15	0.27
	16 - 18	0.36

Rates 1971-2. Van Slooten & Coverdale.

households may have the same equivalent income as households made up of adults and children who are likely to be found higher up the distribution of gross income. For these reasons then it is necessary to look at household size and equivalent incomes in conjunction with the temporal comparison of income distribution.

TABLE 2.18

AVERAGE NUMBER OF ADULTS AND CHILDREN PER HOUSEHOLD

Decile (arranged by gross income)

Year	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
					Adults						
1973	1.15	1.51	1.75	1.86	1.97	1.04	2.12	2.23	2.38	2.63	1.96
1979	1.08	1.47	1.68	1.74	1.91	2.00	2.05	2.17	2.38	2.62	1.91
1984	1.06	1.43	1.69	1.78	1.90	1.99	2.10	2.17	2.39	2.58	1.91
					Children						
1973	0.06	0.20	0.53	0.87	1.10	1.19	1.18	1.18	1.16	1.07	0.85
1979	0.06	0.21	0.41	0.77	0.95	1.12	1.14	1.07	1.03	1.10	0.79
1984	0.11	0.35	0.50	0.63	0.77	0.86	1.01	1.02	0.91	0.94	0.71

The data on the average numbers of adults and children per household (Table 2.18) in each decile, shows an overall decrease in household size from 2.81 in 1973 to 2.62 in 1984. These overall figures reflect the slight decline in the numbers of adults per household in each decile over the years, and a decline in the number of children in each decile between 1973 and 1979. However, between 1979 and 1984 the average numbers in the higher deciles decreased. This lends further support to the idea that the unemployed with families have moved into the bottom deciles. Across deciles the number of adults in each decile increases moving from the bottom to the top decile, the number of children increases from the 1st to the 8th decile and then falls slightly in the 9th and 10th deciles.

The changes in the size of household suggest more older people who have smaller households, people deferring marriage and having single households for longer, people having fewer children and an increased number of single parent households. The distribution of household size shows more single, childless and old people at the lower end of the income range, households with children to be situated in the middle deciles and those with the most adults and fewer children to be in the top two deciles.

The figures suggest an increase in household size as income increases which would mean that the distribution of equivalent household income is likely to be much more equal

than that of gross of disposable household income. However, it is not possible to calculate equivalent incomes from the FES published data[54] and, even if it were calculated, it would need to be ranked by decile of equivalent income rather than the gross income deciles available in order to gain an impression of the income band a household lies within. It has been found, using FES data for 1982, that using equivalent income significantly alters the rank ordering of households so that less than half of all households remain in the same decile when the deciles are ranked by equivalent income compared to when they are ranked by unadjusted income.[55]

However, other work can be drawn upon to show how using equivalence scales can significantly alter the observed income distribution. The equivalent income distribution has been found to be considerably more equal than the distribution of disposable household income.[56] When looking at equivalent original income it has been found that households with working adults are to be found in the top half of the distribution, over half the long-term unemployed and nearly half of the retired households were to be found in the lowest quintile and households with children were particularly concentrated in the middle of the distribution. Thus using equivalent income does not greatly alter the conclusions reached from looking at gross income and household size by decile. The greatest impact of occupational pensions was found in the second quintile although all quintiles except the bottom benefitted from this source of income, so verifying the idea that those pensioners on State pensions were to be found in the lowest parts of the income distribution. Transfer payments were found to reduce some of the inequalities arising from the distribution of original income.[57]

The temporal comparison of equivalent income showed that the recession in the U.K. has caused inequalities to grow so that households with more workers are found in the higher deciles and the previous position of the retired in the bottom deciles is being taken by those households with unemployed heads. O'Higgins concludes that "during the recession in the U.K., the role of the market has diminished, but its inequalities have grown."[58] Although the inequality revealed

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[54]. There is a large amount of error involved in trying to calculate the equivalent income from the average incomes and numbers in a household given for a range of income as presented in the FES published data thus there is little to be gained from trying to do this.

[55]. O'Higgins (1985a)

[56]. Van Slooten & Coverdale (1977).

[57]. O'Higgins (1985s) FES data for 1982.

[58]. O(Higgins (1985b) p.303

by these studies of equivalent income is less than those observed from the distribution of gross and original incomes, the conclusions as to the causes of the greater inequality, and those to be found in different parts of the income distribution remain much the same.

2.6 Summary

The temporal comparison of the distribution of income has revealed that original incomes have become more unequal in each year being studied, and whilst the inequality of gross income did not alter between 1973 and 1979, inequality increased between 1979 and 1984. The change in original income distribution between 1973 and 1979 has been attributed to increased labour force participation by married women and an increase in the percentage of the population that are retired or unemployed. However, the stable distribution of gross income between 1973 and 1979 suggests that over this period the State benefit system did much to negate this increased inequality. Between 1979 and 1984 the increase in inequality in original income has largely been due to the increased unemployment and, to a much smaller extent, to the increase in the number of retired. However, the likely increase in inequality due to an increasing ageing population has been partially offset by the increase in the number of retired receiving pensions from private schemes which tends to reduce inequality between the retired and non-retired, although it may increase inequality within the retired group.

The increase in inequality in gross incomes between 1979 and 1984 reflects the inability and unwillingness of the Thatcher government to offset the increased inequality in original income. This has been amply demonstrated by the cuts made in transfer payments to individuals. The changing income distribution would, therefore, seem to be largely due to those in work becoming better off whilst those out of work are becoming worse off.

3. CHARACTERISTICS OF HOUSEHOLDS THAT HELP TO DETERMINE THE PART OF THE INCOME DISTRIBUTION A HOUSEHOLD WILL LIE IN

This section proposes to look at what are the characteristics of a household that determine which part of the income distribution a household lies in? Various factors will be considered, such as the composition of the household, the age, employment status and socio-economic class of the head of household, the number of workers in the household and the geographical location of the household. In the main each of these factors will be discussed in relation to one year only, 1984, but where there have been significant changes in a factor over time, this will also be considered.

3.1 Size and Composition of Household

The size of household has changed quite considerably over the period being studied (Table 3.1). The average size of household has declined due to the decrease in percentages of households with five or more members and an increase in single person households, which is largely a result of the increasing older population. This is also shown by the data on the percentage of households of each composition (Table 3.2), where the percentage of households with two adults and three or more children has decreased, and the percentages of one adult and one adult and children households has increased. Therefore, the average size of household has fallen because of smaller family sizes, larger numbers of single adults and larger numbers of single parent families.

TABLE 3.1

HOUSEHOLDS BY SIZE (%)

	1971	1976	1981	1984
1 person	18	21	22	25
2 people	32	32	32	32
3 people	19	17	17	16
4 people	17	17	18	18
5 people	8	8	7	6
6 or more people	6	5	4	3
Average size	2.89	2.76	2.71	2.59

Source: Social Trends 1986 (1971, 1981 Population Census; 1976, 1986 General Household Survey).

The indices of gross income and equivalent disposable income[59] show similar trends across the different household compositions in all years (Table 3.2) therefore only 1984 will be considered in detail.

Diagram 3.4 shows that the more adults in a household the higher is the gross income. However, for man and woman households gross income decreases with more than two children and for four adult households with one child it is lower than for the four adult household. This then suggests that even gross income is related to the composition of the household and disposable income (Diagram 3.3) composition appears to be much

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[59]. An equivalence scale is used to give equivalent disposable income to facilitate comparisons between households standards of living. The scale used is 1.0 for the first adult, 0.7 for each subsequent adult and 0.5 for each child.

more important than the size of the household; income increases slightly with the number of adults in the household, but decreases more markedly with the number of children, except for the single parent family. The number of adults in the household is likely to be a vague proxy for the number of workers, so it may be assumed that the standard of living of each member of the household increases as the number of workers in the household increases, but as the dependency ratio increases, that is the number of children or others who would not be working, the standard of living for each member decreases.

TABLE 3.2

HOUSEHOLD INCOME BY HOUSEHOLD COMPOSITION

	1 Adult	1 adult 1/+ child	man & woman	man woman & 1 child	man woman & 2 child	man woman & 3 child	2 adults 4/+ child	3 adult	2 adults 1/+ child	4/+ adult	4 adult 1/+ child	All housi holt
% households in groups												
1973	19.4	2.6	2.6	29.7	11.1	12.5	3.2	6.9	5.3	1.5	1.8	694(
1979	22.7	3.5	28.9	9.8	14.2	5.0	2.0	5.4	5.0	1.7	1.8	658:
1984	24.0	3.7	19.1	9.2	13.2	4.5	1.4	6.3	4.6	2.4	1.6	686:
index of gross income												£
1973	42.8	52.8	95.0	112.1	114.2	121.4	116.6	142.9	157.5	199.6	196.9	49.‹
1979	44.9	63.8	96.3	108.1	123.6	124.1	112.2	149.3	165.8	202.6	210.2	120.‹
1984	45.2	50.6	98.5	118.2	128.1	120.6	105.5	146.9	161.9	206.5	189.5	197.:
index of equivalent income *												
1979	90.2	91.5	110.2	95.0	89.0	75.5	60.1	117.0	110.8	121.4	112.2	51.!
1984	93.6	114.8	116.0	100.8	92.5	74.9	59.7	120.8	110.5	129.0	105.3	80.(

*   Categories where there are `1 or more' etc. are assumed to have the minimum number of people for the purpose of weighting disposable income to get equivalent income.

The two largest groups of households are the single adult and man and woman households making up over 53% of the total number of households in 1984. These groups are likely to consist of both retired adults and young people, and it is possible that these have very different gross incomes and standards of living, so they deserve more detailed examination.

Table 3.5 shows that there has been an increase in the 1973 to 1984. Over half the one adult households, and about one third of the man and woman households, are made up of

TABLE 3.5

CHARACTERISTICS OF HOUSEHOLDS WITH 1 ADULT OR MAN AND WOMAN, DIFFERENTIATING BETWEEN RETIRED AND NON-RETIRED HOUSEHOLDS.

	1 adult			man and woman		
	under 65	over 65 dependent on state pension	other	under 65	over 65 dependent on state pension	other
1973						
% households in group	42.1	--- 57.9 ---		65.1	--- 34.9 ---	
Index of gross income	60.0	--- 30.2 ---		115.1	--- 57.5 ---	
1979						
% households in group	42.1	33.9	24.0	66.8	14.1	19.1
Index of equivalent income	121.9	54.0	85.9	130.6	49.3	83.9
Index of gross income	65.0	23.0	40.4	117.1	35.8	68.2
% gross income made up by:						
wages and salaries	75.8	0.2	0.0	81.0	0.0	14.2
social security benefits	8.1	93.7	43.3	5.1	89.3	39.9
Other	16.1	6.1	56.7	13.9	10.7	45.7
1984						
% households in group	43.3	30.5	26.1	66.5	12.6	20.9
Index of equivalent income	121.2	50.3	98.3	133.7	52.7	97.9
Index of gross income	63.2	20.4	44.3	117.3	36.4	76.0
% gross income made up by:						
wages and salaries	69.9	0.0	0.0	73.3	0.0	10.9
social security benefits	9.9	92.9	42.2	6.4	89.2	39.0
other	20.2	7.1	57.8	22.5	10.7	50.1

Table 3.3

Equivalent Disposable Household Income by Household Composition, 1984.

Index of
equivalent incomes

Percentage of households
of each composition.
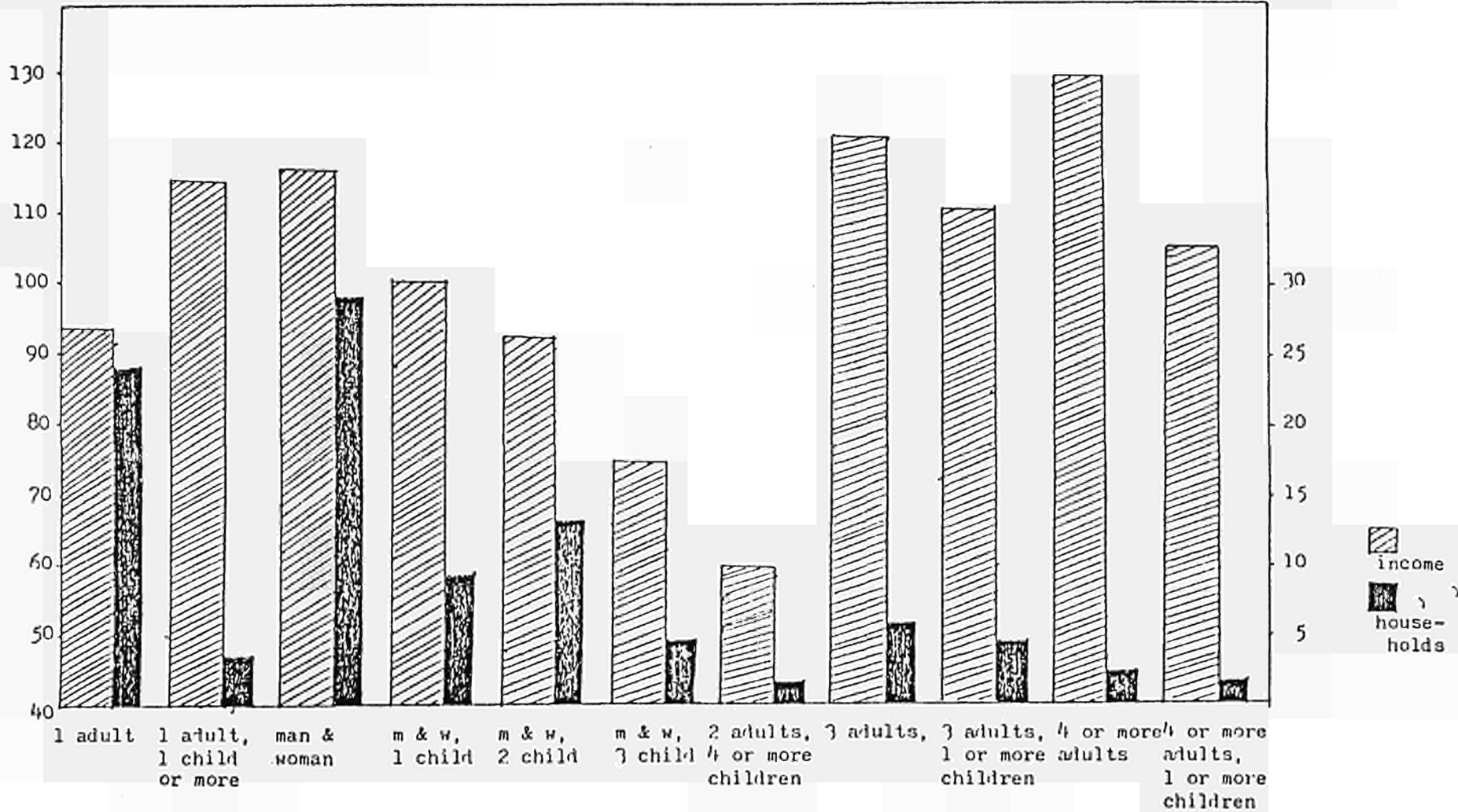
income

house-
holds

Diagram 3.4

Gross Household Income by Household Composition, 1984.

Index of
gross income

Percentage of households
of each composition

258.

income

house-
holds

220	30
200	25
180	20
160	15
140	10
120	5

1 adult | 1 adult, 1 or more children | man & woman | m & w, 1 child | m & w, 2 child | m & w, 3 child | 2 adults, 4 or more children | 3 adults | 3 adults, 1 or more children | 4 or more adults | 4 or more adults, 1 or more children
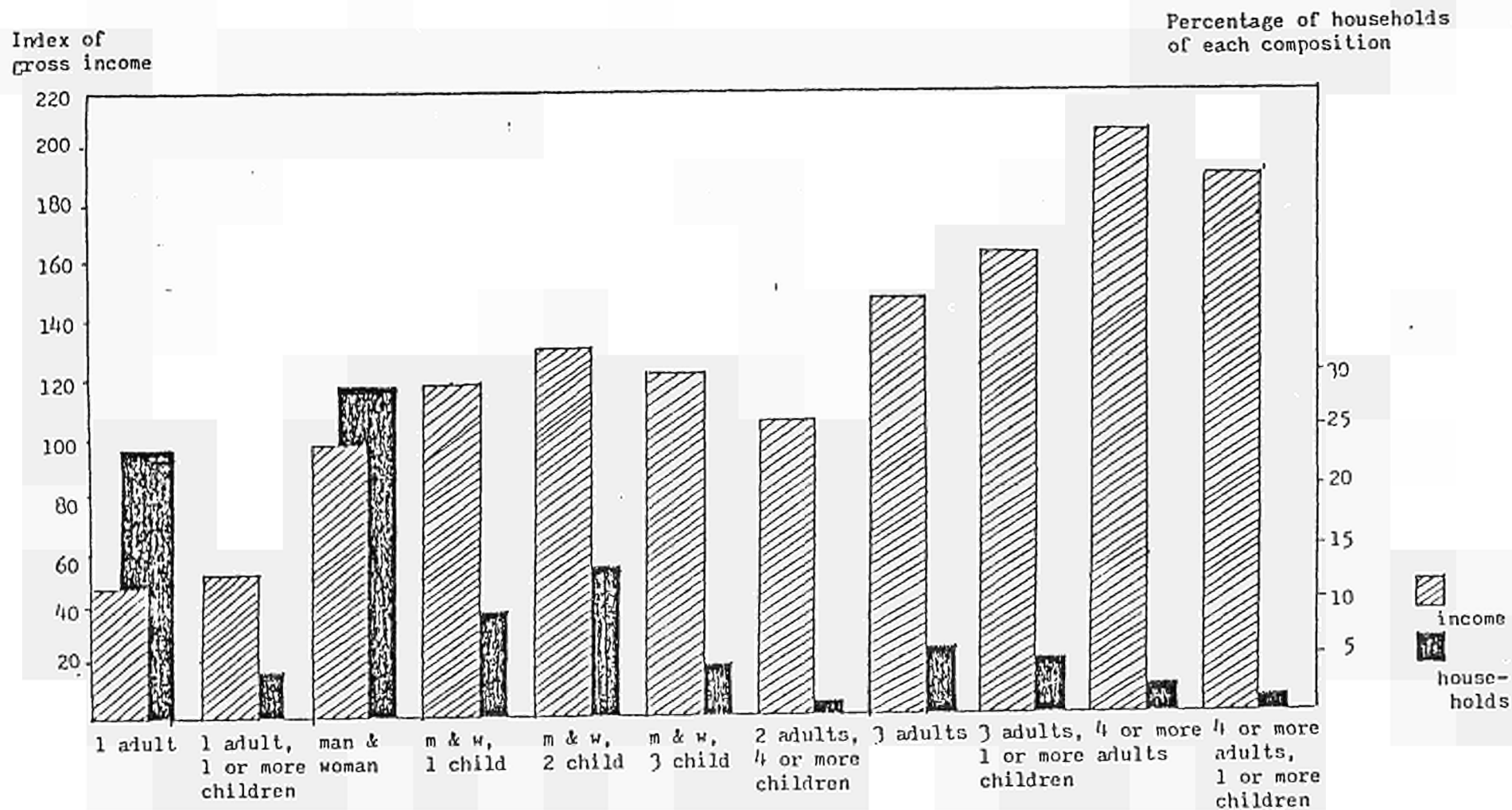
retired households. Of the non-retired households both the one
percentage of one adult pensioner households over the period
adult and two adult households have gross incomes that are
considerably higher than those for the whole of the one adult
and two adult groups, thus the averages for these groups are
brought down by the retired households. The non-retired one
adult gross income is higher than that for a single adult with
children, but the non-retired two adult household has a gross
income below that of the two adult household with one child.
The same tendencies, as already observed for the equivalent
income of one and two adult households, still apply for the
non-retired one and two adult households, although their
equivalent income is necessarily higher than for all one and
two adult households.

Of the retired households it can immediately be seen that
there are large differences between the households that are
largely dependant on State pensions, and those that have other
pensions. Well over half of single pensioners and a third of
two adult pensioner households are dependant on State pensions.
These adults have the lowest gross incomes and equivalent
disposable incomes of any group. Thus the old, largely
dependant on State pensions are generally the poorest type of
household when looked at by composition. The larger number of
single adult households dependant on State pensions is likely
to be due to the greater longevity of women of whom fewer have
entitlement to other forms of pensions. The retired households
dependant on other forms of pensions have gross incomes that
are lower than the averages for the groups as a whole, but
considerably higher than those dependant on state pensions, and
their equivalent incomes are only slightly lower than the
average for all households, therefore a reasonable standard of
living is generally provided for by private pensions. Between
1979 and 1984 there has been an increase in the number of
pensioner households that have private pensions and, as already
mentioned under the temporal comparison of the distribution of
income, this should have helped reduce the overall inequality
and may have accounted for some of the drift of pensioners away
from the bottom deciles observed over the period.

Increased membership of occupational pension schemes means
that income is spread more evenly over a person's life-time so
the distribution of income taken at a point in time should show
a reduction in inequality as the incomes of those working is
reduced and the incomes of pensioners increased. However, this
does not necessarily mean there has been any reduction in life-
time inequality as a large number of pension schemes are
calculated as a percentage of normal earnings, so pensions will
reflect existing differentials between occupational groups.[60]
Occupational pensions therefore reduce the inequalities amongst
the retired with occupational pension schemes.[61]   Even more

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[60]. Wedderbury & Craig in Wedderbury (Ed) (1974).

[61]. O.'Higgins (1985b).

apparent is the inequality between those with occupational pensions and those dependant on State pensions.

The membership of occupational pension schemes over time is shown in Table 3.6. As the increasing numbers of people in these schemes reach retirement the changes in inequality mentioned above will become more apparent.

TABLE 3.6

MEMBERSHIP OF PENSION SCHEMES

By sector and Sex - U.K. (Thousands)

		1953	1967	1971	1975	1979	1983
Private sector:	males	2500	6800	5500	4900	4600	4400
	females	600	1300	1300	1100	1500	1400
Public sector:	males	2400	3100	3200	3700	3700	3400
	females	700	1000	1100	1700	1800	1900
% employees belonging to pension schemes		28	53	49	49	50	52

Source: Social trends 1987 (Government Actuaries Dept.).

Another type of household which is worthy of consideration here is the single parent family. If the one adult with children category is taken as representative of single parent families it can be seen that the percentage of this type of household has increased quite considerably over the period. This is also shown by Diagram 3.7 on divorcing couples by number of children.

TABLE 3.8

INCIDENCE OF SINGLE PARENT FAMILIES, 1984

Decile (arranged by gross income)

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
% of 1 adult with children households in decile	5.6	10.3	7.5	5.2	2.1	2.2	1.3	0.7	0.6	0.3

These households are largely to be found in the bottom three deciles (Table 3.8) and, as has already been shown, their

gross income is low[62] with large numbers claiming benefits; nearly 40% of Family Income Supplement claimants were one parent families in 1984[63] and the number of one parent benefit claimants has risen from 370,000 in 1979/80 to 565,000 in 1984/85.[64] If the trend in increasing numbers of single parent families continues, this is likely to cause an increase in the numbers receiving low incomes and so lead to greater inequality in the distribution of income. It could also explain a small part of the greater inequality in income distribution seen in the temporal comparison.

The data on the components of gross income by household characteristics for non-retired households (Table 3.9) show a decrease in the percentage contributed by wages as the number of children increases, this decrease is a result of the actual amount received from wages and salaries falling. One parent families have the highest level of social security benefits and the higher percentage of benefits for 3 and 4 adult households suggest the presence of retired or unemployed adult children in these households.

To summarise this section it has been seen that household size does not seem to be a significant determinant of income in itself, although average household size increases with the decile. Instead income seems to be more related to household composition. Retired adults on state pensions have the lowest incomes and single parents are also likely to have low incomes. Gross income increases as the number of adults increases and is slightly reduced by the presence of children in households with three or more adults. Income of couples increases as they go from 0 to 2 children, but thereafter decreases. These results would tend to suggest that income is more related to the life-cycle phase and the number of workers in the household than household size per se. These possibilities will be explored in the following sections.

3.2 Age of Head of Household

The age of the head of household is likely to have quite a strong bearing on the income of the household if income is distributed unevenly over the life-time. The data in Table 3.10 and Diagram 3.11 suggest that this is the case.

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[62]. Equivalent income is higher but this is due to under estimation of the number of children as there was only assumed to be one in each household. Diagram 3.7 shows that over half the divorcing couples with children have more than one child. If the data is adjusted for this the equivalent income of a single parent family is less than that for the man and woman with a child.

[63]. Monthly Digest of Statistics

[64]. Government Expenditure plans CMND 9702.

DIAGRAM 3.7

Divorcing Couples by Number of Children. England & Wales.

Key :

▢ 3 or more children under 16

▨ 2 or more children under 16

▦ 1 child under 16

▩ no children under 16   Source : Social Trends 1987 Table 2.15
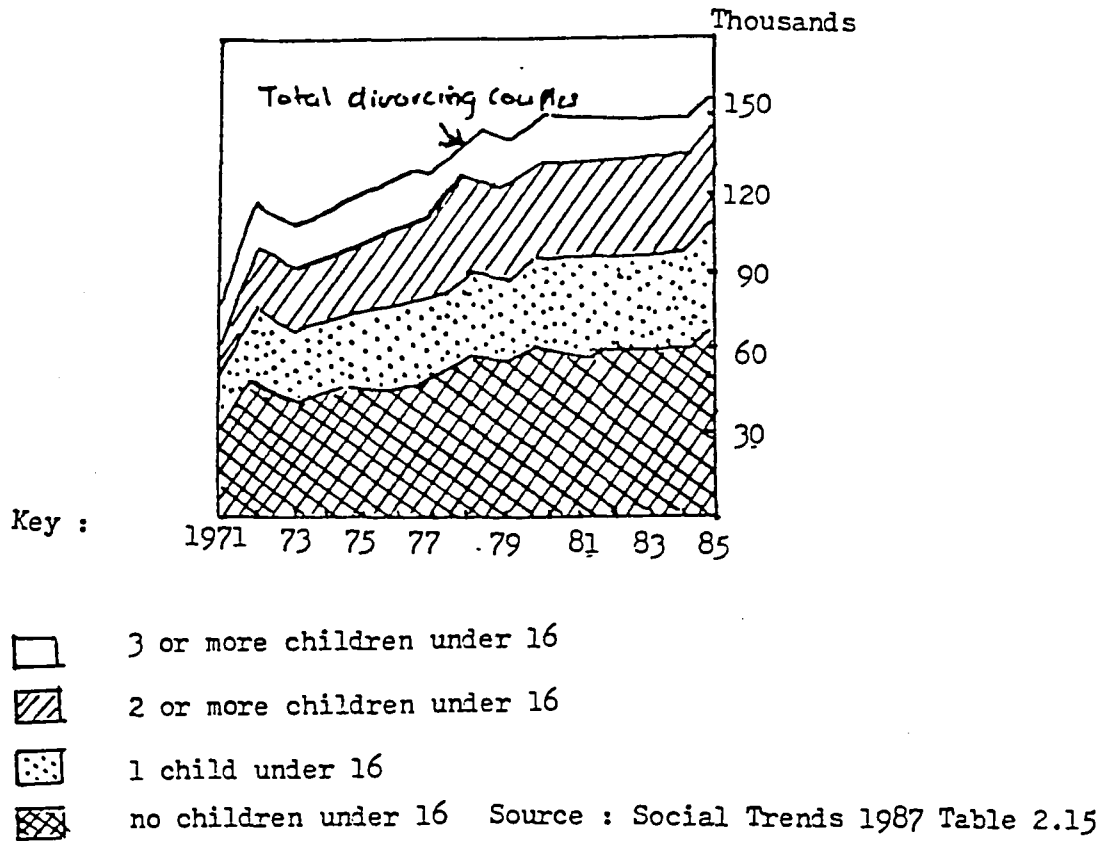
TABLE 3.9

COMPONENTS OF GROSS INCOME BY HOUSEHOLD COMPOSITION, 1984.

	% gross income made up by:		
	wages & salaries	social security benefits	Other
1 adult (non-retired)	69.9	9.9	20.2
1 adult & children	36.2	37.1	26.7
man & woman (non-retired)	73.3	6.4	22.5
man, woman & 1 child	77.8	7.4	14.9
man, woman & 2 children	77.8	7.6	14.7
man, woman & 3 children	67.7	12.8	19.6
2 adults, 4 or more children	59.3	23.7	17.0
3 adults	73.7	9.9	16.4
3 adults, 1 or more children	76.5	9.0	14.4
4 or more adults	75.3	7.3	17.4
4 or more adults & children	75.4	12.6	12.0

TABLE 3.10

INCOME AND HOUSEHOLD CHARACTERISTICS BY AGE OF HEAD, 1984.

	Head's age				
	less than 30	30 and under 50	50 and under 65	over 65	All
% of households	12.6	36.6	26.0	24.9	7081
Index of gross income	93.2	126.7	110.1	53.2	£197.37
Index of equivalent income	95.1	100.7	113.0	83.0	£80.13
Average number of people	2.53	3.51	2.37	1.62	2.62
Average number of adults	1.77	2.05	2.14	1.59	1.92
Average number of workers	1.26	1.66	1.39	0.61	1.18
Average number over 65	0.01	0.02	0.22	1.33	0.40
Average age	25	39	57	73	51

Gross income increases from the less than 30 age group to the 30-50 age group where it peaks and then declines until it reaches its lowest level at the over 65 age group. In terms of equivalent income, income increases until 65 years of age and then falls dramatically. The average number of people and average number of workers in each household is the highest in the 30-50 age group, which explains the highest gross incomes in this group. The 50-65 age group has a smaller household size, the highest number of adults but fewer workers than in the 30-50 age group. The smaller household size and fewer child dependents explains the higher equivalent income of this group.

These figures suggest a definite life-cycle tendency for the household. When the head is less than 30 there are a mixture of single households, married households and married households with children. These households have a relatively low number of workers, and therefore have lower incomes. These lower incomes may also be due to people in career jobs, and involved in training in the younger part of this age range receiving less than their peak income. Between 30 and 50 household size is largest with high numbers of children; however, there is a high average number of workers so household income is high. Between 50 and 60 there are less children and more adults, but as this group has a lower number of workers than the 30-50 age group, some of these households possibly include ageing relatives, or non-employed adult children and therefore have lower incomes. By the 65 and over age group households largely comprise adults only, few of which have workers. Therefore most of these households are dependant on pensions and thus have the lowest incomes.

DIAGRAM 3.11

Equivalent Disposable Income and Average Size of
Household by Age of Head of Household, 1984.

Age of head of household
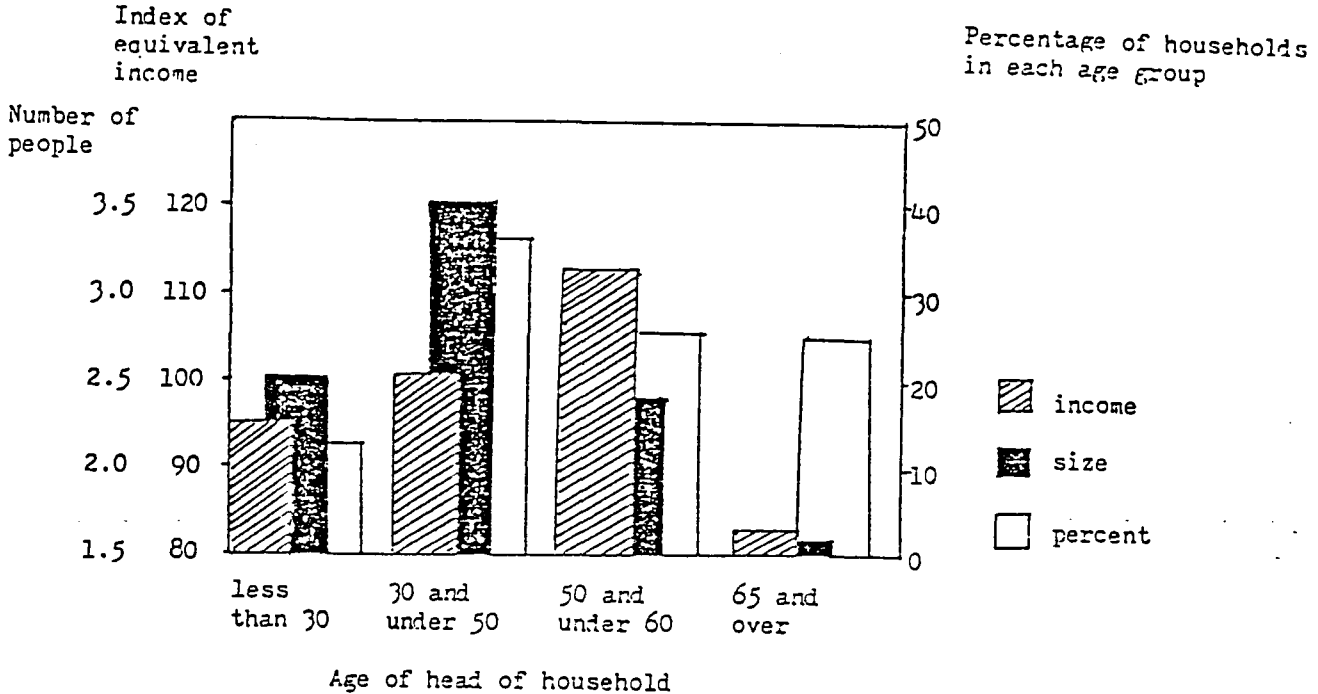
These figures would tend to suggest that there is a life-cycle tendency in household income, but that this is more dependant on the number of available workers, which is restricted by the number of old and young dependents to be cared for within the household, rather than the age of the head per se. It has been found that women in the U.K. are severely inhibited from working when their children are under five and, even when they are of school age mothers often only work part-time in order to fit in with school hours. It is not until the children are considerably older that women are likely to resume full-time work. The main reason for this is attributed to the lack of suitable childcare facilities after school hours and during school holidays. Unlike some other European countries the State provides very little childcare and what is provided is often 'special needs' and does not cover normal working hours. therefore, the mother has to find someone to look after her children in order to be able to work.

The numbers of dependant children of married couples at different stages in the life-cycle is shown in Table 3.12. these show that when the head is under 30 families are just being formed making it difficult for married women to work, as they have young children. In the 30-44 age group the higher percentage of larger sized families suggests that in many cases family formation has been completed and children are likely to be older than those in the under 30 age group. At this stage

women may find it easier to return to work, and if they do this is likely to then raise household incomes among this age group. The 45-64 age group shows reduced dependency and so it should be easier for women to work. However, the lower gross incomes of these households may reflect women not working due to the presence of ageing relatives and the fact that some of these heads and their wives will be retired at this stage. When the head reaches retirement age household incomes fall considerably and this definitely seems to be a life-cycle stage.

TABLE 3.12

MARRIED COUPLE FAMILIES BY AGE AND SIZE OF FAMILY

Percentage with:

Head's age	no dependents	1 child	2 children	3 or more children
under 30	40	29	25	6
30-44	18	24	39	19
45-64	72	16	9	3
65 and over	98	2	-	-

Source: Social Trends 1986 (from GHS 1982-84).

The distribution of head's age by decile (Table 3.13) bears out the tendencies already found; under 30's are found in the highest percentages in the middle deciles, heads of 30 to 50 years of age are found in the highest percentages in the top deciles, heads of 50 to 65 are found in all but the bottom three deciles in fairly similar numbers and heads over 65 are concentrated in the bottom three deciles. Although the age of the head of household may be taken as a reasonable guide to which part of the income distribution a household may be found in, there are reasonable numbers of all ages in all deciles , so there are other factors which affect the distribution of income and the age of head alone will not suffice to determine the decile a household lies in.

TABLE 3.13

AGE OF HEAD OF HOUSEHOLD BY DECILE, 1984.

Decile (arranged by gross income)

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
Average of head	62.4	59.9	58.6	51.9	48.6	46.5	44.2	44.3	45.4	46.8	50.9
% heads under 30	9.9	12.3	9.5	14.4	17.1	16.1	16.5	13.3	10.1	6.7	12.6
% heads 30 - 50	10.9	13.7	19.7	28.9	35.5	41.1	49.7	54.5	57.1	54.5	36.5
% heads 50 - 65	20.8	19.1	21.4	28.5	27.2	30.2	24.9	25.7	27.5	34.5	26.0
% heads over 65	58.5	55.0	49.4	28.2	20.2	12.6	9.0	6.5	5.3	4.3	24.9

3.3 <u>Labour Market Relationships</u>

3.3.1 <u>The Number of Workers per Household</u>

It has already been suggested that the number of workers per household will make a significant difference to the income of the household. The data in Table 3.14 and Diagram 3.15, relating to households with full-time employee heads support this. Gross income increases substantially with the number of workers in the household, although equivalent income is only a little higher for 3 or more worker households than for 2 worker households. This suggests that either the third worker does not bring in a very high income, which may be due to the third worker being an adult child bringing in a small income as he/she is in the process of training, or that the households with three workers have lower individual incomes than individuals in two worker or one worker households. The numbers of people, adults and children and the age of head relating to the number of workers in the household, tend to bear out the hypotheses put forward under the `age of head of household' about family structure and household life-cycle.

TABLE 3.14

NUMBER OF WORKERS IN HOUSEHOLDS WITH FULL-TIME
EMPLOYEE HEADS, 1984.

Number of workers

	1 worker	2 workers	3 [65] or more workers	All employee headed households
% of households	37.4	47.7	14.9	3303
Index of gross income	78.1	104.8	139.6	£272.79
Index of equivalent income	88.8	104.8	106.9	£92.32
Average number of people	2.68	3.09	4.07	3.08
Average number of adults	1.71	2.11	3.17	2.12
Average number of children	0.97	1.46	0.90	1.19
Average age of head	40	41	48	42

The number of workers in the household by decile (Table 3.16) shows the same trends. As the number of workers in the household increased, the likelihood of being in a higher decile increases: households with one worker are concentrated in the middle deciles, households with two workers in the top half of the income distribution and those with three or more workers in

[65]. Only 2.6% of all households (5.6% of all employee headed households) had more than 3 workers in the 1984 sample.

the top two deciles. The average activity ratios[102] increase
with decile showing that an increase in income is directly
related to the increase in the ratio of the number of workers
to the number of people in the household. The number of
workers in a household seems to be a good, although not
infallible, indicator of the range of the income distribution a
household is likely to find itself in.

DIAGRAM 3.15

Equivalent Disposable Income and Household Characteristics
by Number of Workers in Households with Full-Time Employee Heads, 1984

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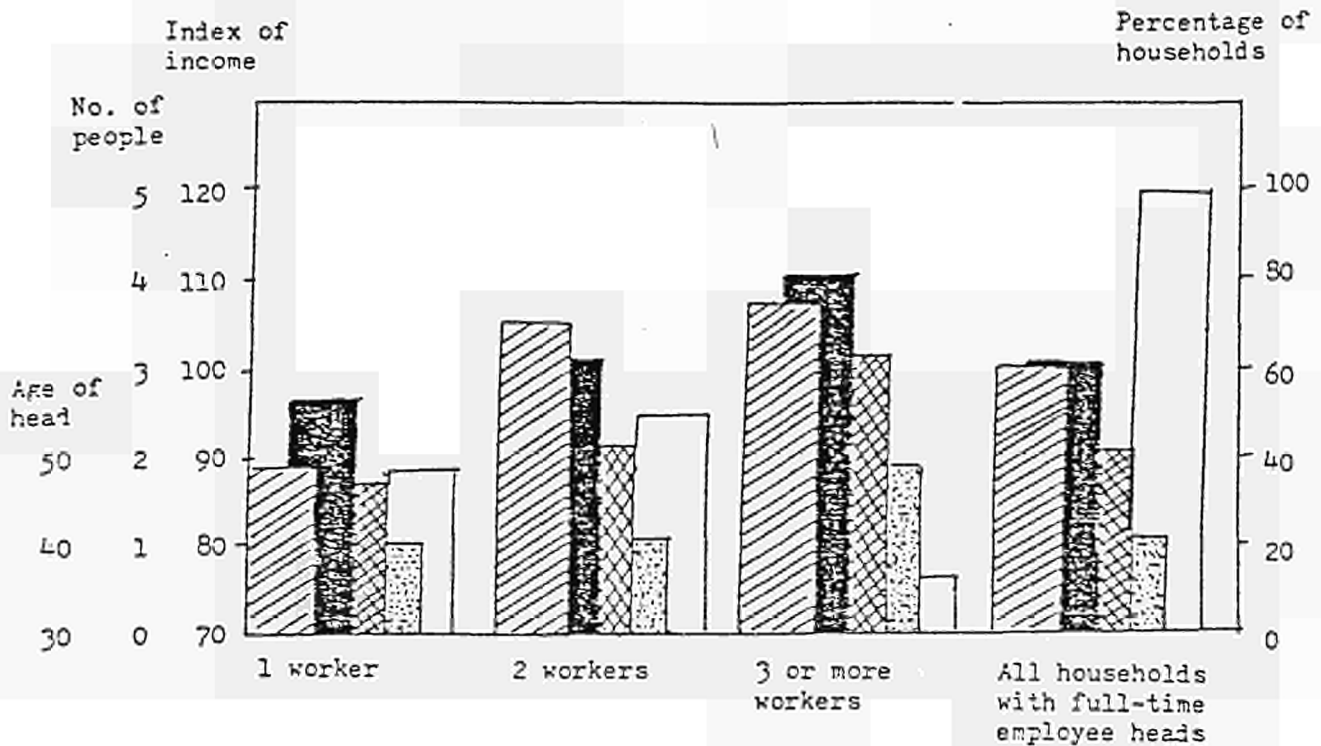
102. Activity Ratio =
     average number of workers per household
     average number of people per household
   in each decile.

TABLE 3.16

NUMBER OF WORKERS IN HOUSEHOLD BY DECILE, 1984.

Decile (arranged by gross income)

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
% households in decile with:											
1 worker	8.8	15.4	26.6	50.4	54.9	45.1	35.2	30.6	16.9	15.0	29.3
2 workers	0.7	2.5	5.5	14.9	24.5	39.6	52.8	52.4	53.6	46.3	29.3
3 or more workers	-	-	0.1	0.6	1.8	4.3	5.8	12.7	26.6	36.2	8.8
Activity ratio	0.1	0.1	0.2	0.3	0.4	0.5	0.5	0.5	0.6	0.7	0.5

3.3.2   Married Women Working

Having shown the importance of the number of workers in determining household income, married women working should be looked at in more detail, as this is the most obvious source of a second income earner within the household. As has already been seen, the percentage of households with married women working in 1984 rises from 1.1% in the first decile to 68.0% in the top decile. Overall 34% of households have married women working. Therefore, this source of income is very important in determining which decile a household will lie it. Table 3.17 gives further evidence of this.

TABLE 3.17

INCOME CONTRIBUTED TO HOUSEHOLD BY MARRIED WOMEN, 1984.

Type of Household	Index of income	% of all households	Ave. weekly gross income (£)	% contributed by: Head	Wife	Others
All households	100.0	100.0	197.37	71.4	16.7	11.9
Non-retired households with:						
married women working:						
with dependant children	144.1	16.6	284.35	68.8	24.3	7.0
without dep. children	151.8	17.4	299.58	58.7	29.2	12.1
married women not working:						
with dependant children	106.5	18.0	210.26	85.8	8.0	6.2
without dep. children	108.4	13.8	213.88	77.4	6.0	16.6

On average married women contribute less than 30% of household income where they are working. The percentage is less for married women with children, as they are less able to do full-time work due to family commitments. It is interesting that the husband contributes less, both proportionately and in absolute terms, in households without dependant children. This might suggest that couples have children when the husband's income is higher and is therefore presumably more able to support a family. This would then relate to the life-cycle distribution of income as discussed earlier.

The earlier figures show how married women working helps position the household higher up the income distribution and Tables 3.18 and 3.19 show women with husband's in the non-manual, particularly intermediate and junior non-manual, socio-economic classes are more likely to be working and to be working full-time than wives of husbands in the manual socio-economic groups. Furthermore, the earnings of others in the household, who are most likely to be married women, increases both absolutely and relatively as the income of the main earner increases. This demonstrates how the inequality observed in original incomes is likely to increase with greater labour force participation of married women.

TABLE 3.18

ECONOMIC STATUS OF WIFE BY SOCIO-ECONOMIC GROUP OF HUSBAND. 1981-82.

Socio-economic group of husband	Economic Status of Wife (%)				
	Working			Unem-ployed	In-active
	Full-time	Part-time	Total		
Professional, employers & managers	25	34	59	3	38
Intermediate non-manual	31	32	63	2	35
Junior non-manual	32	31	64	3	33
Skilled manual & non-prof.	25	33	58	4	37
Semi-skilled manual & personal services	24	32	56	5	38
Unskilled manual	24	27	51	8	41

Source: General Household Survey.

TABLE 3.19

CONTRIBUTION OF OTHERS TO HOUSEHOLD INCOME
BY QUINTILES OF ORIGINAL HOUSEHOLD INCOME, 1984.

			Quintile			
Averages per household	Bottom	Next	Middle	Next	Top	
£ per annum	20%	20%	20%	20%	20%	All
Earnings: main earner	10	1260	5600	8350	12760	5580
Earnings: others	-	80	600	2140	5700	1700
Total original income	110	2480	7130	11200	19750	8130
Others earnings as % of main earner's earnings	0.0	6.3	10.7	25.6	45.0	30.5
Others earnings as % of total original income	0.0	3.2	8.4	19.1	28.9	20.9

Source: Social Trends 1985.

3.3.3 Employment Status of Head of Household

It has already been shown how employment and retirement affect the household in terms of the part of the income distribution it is likely to find itself in, and it is worth looking at these again in comparison with other groups.

TABLE 3.20

HOUSEHOLD INCOME AND CHARACTERISTICS BY
EMPLOYMENT STATUS OF HEAD, 1984.

			Employment Status of Head of Household			Employee out of job	
	All	Em-ployee	Self-Employed	Re-tired	Unoccu-pied	Manual	Non-manual
% households	7266	52.6	7.1	24.6	13.0	2.0	0.6
Index of gross income	£196.09	132.1	124.0	50.0	56.6	62.8	111.6
Average number of people	2.63	3.01	3.23	1.57	2.71	3.09	2.58
Average number of adults	1.92	2.07	2.14	1.55	1.91	1.96	2.04
Average number of workers	1.19	1.78	1.84	0.14	0.35	1.49	1.86
Average number over 65	0.39	0.06	0.06	1.36	0.15	0.06	0.02
Average age	50	42	43	73	47	38	45
Index of equivalent income	£79.60	113.4	112.8	80.2	63.1	63.8	122.1

It can immediately be seen from Table 3.20 that self-employed and employee headed households have very similar income and characteristics. This is explained by the large number of occupations that are self-employed, and therefore cover a wide range of incomes. The importance of having a working head of household for both gross and equivalent income is clearly visible. The retired have the lowest gross incomes, although their equivalent incomes are higher than those of the unoccupied and manual employees out of a job. The unoccupied group largely consist of the long-term unemployed, as employees out of a job only covers those who have been unemployed for less than a year (hence the low number in this group). The unoccupied have the lowest level of equivalent income, and gross income is only slightly above that of retired households. These long-term unemployed and other households in the unoccupied group will be largely dependant on supplementary benefits, and their extremely low incomes reflects the low levels of these benefits. Household size is slightly smaller than the size of employed households, average age of head is higher and the number not working over 65 in each household is higher. This would suggest that the unoccupied come from the higher age groups, and it is possible that older workers are either more prone to becoming unemployed or that they are more likely to suffer long-term unemployment.

Of the employees out of a job manual workers seem to be more prone to short-term unemployment, they also have a larger household size and a younger average age than employee headed households. The non-manual unemployed have a smaller household size and older average age than employed heads. The manual unemployed have gross and equivalent incomes slightly above those of the unoccupied group. The non-manual unemployed appear to have very high gross and equivalent incomes which at first glance appears surprising. However, this can be accounted for by the fact that 'all employees' incomes are biased downward because of the inclusion of both manual and non-manual workers; if both manual and non-manual employees out of a job are taken together the gross earnings index is 73.3. This is higher than the index for the occupied because the unemployed will be getting unemployment benefit rather than supplementary benefit. However, the differential between manual and non-manual unemployed households incomes is still surprising as earnings-related unemployment benefit was abolished in 1982. The differential is partly due to definition where a 13 week rule is applied, such that a household member is considered to have his/her previous income from employment if he/she is sampled within 13 weeks of becoming unemployed, and possibly due to non-manual unemployed receiving more benefits to pay for higher fixed payments such as mortgage interest.

TABLE 3.21

INCOME DISTRIBUTION BY EMPLOYMENT STATUS
OF HEAD OF HOUSEHOLD, 1984.

Decile (arranged by gross income)

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
% households where head is:											
employee	6.8	11.3	21.0	43.0	59.6	40.0	76.6	82.9	85.8	83.7	54.1
self-employed	1.9	3.7	5.0	11.4	8.2	9.1	9.6	6.9	6.3	11.0	7.3
retired	66.1	56.3	49.2	27.3	19.3	12.7	8.3	6.4	4.5	2.8	25.3
unoccupied	25.2	28.8	25.8	18.3	13.0	8.2	5.5	3.9	3.4	2.5	13.4
% employees/employee out of job	4.1	3.8	4.5	4.1	3.8	2.0	1.1	1.5	0.9	1.5	2.7
Self-employed as % of all workers in decile	24.2	17.0	10.3	12.6	9.2	6.8	7.3	5.8	6.8	13.5	11.4

The distribution of income by the employment status of the head of household (Table 3.21) shows that employees are concentrated in the top half of the distribution and the retired, unoccupied and unemployed are all concentrated in the bottom four deciles. The self-employed are present in reasonable numbers in all deciles except the bottom three, suggesting that self-employment puts households into the same area of the income distribution as having an employed head. However, if the self-employed are looked at as a percentage of all workers in each decile, it can be seen that self-employment is a major form of work in the bottom half of the distribution and the top decile. The apparent low pay of the self-employed is partly due to a change in definition,[67] which caused most people doing a small job on a part-time basis to be classified as self-employed, and may also be a reflection of some of the lower paid, less protected jobs being changed from employment to self-employment during the recession to avoid overhead costs.[68]

In summary, an employed head of household is the employment status most likely to put a household in the top half of the income distribution. However, over one third of the households in the bottom half have working heads.

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[67]. See Appendix 3.

[68]. It is also possible that this observation could be partly due to the non-response bias of high income earners and the self-employed and the understatement of self-employment income, see Appendix 1 and Introduction.

Conversely, only 12% of the households in the top half of the distribution have retired or unoccupied heads. Therefore, having a retired or unoccupied head is more likely to place the household in the bottom half of the distribution than having a working head is to put it in the top half.

3.3.4 Unemployment

Some of the effects of unemployment have already been considered. However, due to its importance in the temporal comparisons of income and the tendency to situate the household at the bottom end of the distribution, some aspects of the nature and incidence of unemployment will be considered.

TABLE 3.22

ANALYSIS OF UNEMPLOYMENT BY DURATION OF UNEMPLOYMENT - G.B.
(Males, Thousands)

Year	Total Unemployed	Percentage whose duration of unemployment has been		
		less than 2 weeks	2-8 weeks	more than 8 weeks
1973	499.4	13.5	19.7	67.9
1979	930.8	8.5	19.6	71.9
1984	2110.8	5.6	11.5	82.9

Source: Monthly Digest of Statistics.

Table 3.22 shows that the average duration of unemployment has increased quite considerably over the period so that there has not only been a tremendous increase in the number of unemployed but also in the number of long-term unemployed. This is further supported by the large numbers of unemployed claiming only supplementary benefit (Table 3.23).

TABLE 3.23

SOCIAL SECURITY BENEFITS FOR THE UNEMPLOYED,
1984, G.B. (MALES)

Percentage of unemployed receiving:

	unemployment benefit only	unemployment & supplementary	supplementary benefit only	no benefit	total unemployed
1976	30.0	10.9	42.4	16.6	1076
1981	28.2	11.4	46.0	14.4	1944
1984	20.8	9.3	60.1	9.7	2117

Source: Social Trends 1987.

Young and coloured males are most likely to experience some unemployment (Table 3.24). By socio-economic group manual workers are more likely to experience unemployment than non-manual workers, and of the manual workers the semi-skilled and unskilled have the highest rates. Therefore, those with the higher paid more secure jobs are much less likely to experience unemployment, and the brunt of unemployment will fall on the lower paid workers, reducing their incomes further and so increasing the inequality of income distribution.

TABLE 3.24

MALE UNEMPLOYMENT IN THE PREVIOUS 12 MONTHS
BY AGE, COLOUR AND SOCIO-ECONOMIC GROUP, 1984, G.B.

Percent with

	no spells of unemployment	1 spell of unemployment	2 or more spells of unemployment	sample size
Males aged:				
18 - 24	70	25	5	1091
25 - 39	84	14	2	2555
40 - 59	88	11	1	2631
60 - 64	91	9	-	654
All males	84	14	2	6931
Colour:				
white	84	14	2	6316
coloured	73	25	1	292
Socio-economic group:				
Professional/ employers/managers	94	6	-	1656
Intermediate/junior non-manual	88	11	1	1169
All non-manual	92	8	1	2825
Skilled manual	83	15	2	2663
Semi-skilled/ unskilled manual	71	24	4	1398
All manual	79	18	3	4061

Source: General Household Survey 1984.

3.4   Socio-economic Class of Head

The importance of having an employed head of household in positioning the household in the income distribution has been seen, but this may be more closely classified by looking at the socio-economic class of the head, due to the existence of pay differentials between occupations.

In this section the importance of educational qualifications in determining the socio-economic class of males[69] and their earnings will also be considered, as will the inter-generational transmission of socio-economic class and educational attainment between fathers and sons. If there is evidence of this inter-generational transmission any determination of the income distribution by socio-economic class is likely to remain stable over time, and different generations of the same family are likely to lie in the same part of the distribution.

3.4.1 Socio-economic class of Head of Household

The socio-economic class of head and its relationship to household income and household characteristics are shown in Table 3.25 and Diagram 3.26. There is a large variation in gross household income by socio-economic class of head with the gross income of the highest group, administrative and managerial workers, being over twice that of the lowest, unskilled manual workers. The index of equivalent income shows exactly the same trends and ordering by socio-economic class as the gross income index, although the range is slightly narrower, the highest being just under two times the lowest. Therefore, it would seem that the tax system does little to reduce the differentials in gross income. This is particularly true in 1984 when the tax laws of the Thatcher government have benefitted the better off as, although the standard rate of tax has been reduced, the effective tax rate has risen, which has particularly affected the disposable income of low income families.[70] A widening of the earnings distribution can be seen by comparing the indices of gross income and equivalent income for 1979 and 1984 (Table 3.27). This supports the view that the recession has lengthened the low income tail of the earnings distribution.[71] The widening differentials between manual and non-manual workers is shown by the increase in the median male full-time workers income between 1981 and 1984; manual workers median income increased by 28.1% and non-manual workers income by 29.7%.[72]

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[69]. Males only are considered as it can be assumed that most heads are males, see Appendix 2. No information about the sex of head is available so the effect this might have on where the household finds itself in the income distribution is not discussed.

[70]. Rubery, Tarling & Wilkinson (1983).

[71]. Ibid.

[72]. Social Trends 1986. The distribution also widened as the range between the highest and lowest decile as a percentage of the median between 1981 and 1986 increased from 85% to 88%

The average size of household is above average only in the administrative and managerial and skilled manual worker categories, caused by both higher numbers of children and adults. However, the range of household sizes is fairly small and the size of household seems to have little correlation with the socio-economic class of the head. The average number of workers per household will have an effect on gross income however. The administrative and managerial, skilled and semi-skilled manual workers have higher numbers of workers per household. As these come from various parts of the earnings distribution there is no real evidence to suggest that there are more workers specifically in higher or lower classes, thus causing the differentials observed. These differentials do seem to be largely due to the pay differentials between the heads of households, although it must be borne in mind that wives are likely to contribute more, both absolutely and relatively, as husband's income increases, therefore widening these differentials.

The average age of head differs slightly across the classes. These age differences may mean that the observed distribution of income between socio-economic classes may be slightly understated as different socio-economic groups have different earnings profiles. Male full-time manual worker's earnings peak between the age of 30 and 50 and decline slightly afterwards. Male non-manual earnings peak between 40 and 49 and are only about three-quarters of this between the ages of 25 and 29.[73] From the age distribution of the categories it would seem that most of the manual workers have reached their peak earnings, whereas the non-manual categories have an average age which is only just reaching the peak of their earnings power. Therefore, the incomes here underestimate the differentials due to socio-economic category which would be observed if only workers on peak earnings were considered. The life-time incomes of the various groups are also likely to differ due to other factors, such as the chances of promotion and the ease of accumulation of assets.[74] It has been found that few manual workers have the possibility of promotion to a non-manual occupation and there are limited opportunities for promotion for clerical workers, whereas increasingly opportunities for promotion are available for technically qualified men.[75] Thus the chances for increasing income are highest for the highly qualified non-manual workers and, therefore, taken over a life-time the differences in incomes of

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for manual and from 110% to 114% for male non-manual workers.

[73]. Rubery, Tarling and Wilkinson (1983).

[74]. Runciman in Wedderburn (1974) considers non-manual workers find it easier to accumulate assets and so increase income and wealth than manual workers.

[75]. Wedderburn & Craig in Wedderburn (1974).

Table 3.25

Income and Household Characteristics by Socio-Economic Class of Head, 1984.

	All Employees	Professional & Technical	Administrative & Managerial	Teacher	Clerical	Manual Skilled	Semi-Skilled	Unskilled
% households	100.0	13.9	14.6	4.6	9.9	34.1	15.2	5.2
Index of gross income	100.0	125.0	133.9	120.9	87.9	91.2	79.2	65.9
Index of equivalent income	100.0	121.5	130.3	119.4	88.5	92.5	81.6	64.9
Average number of people	3.01	2.86	3.17	2.82	2.49	3.27	2.91	2.75
Average number of adults	2.07	2.00	2.15	1.93	1.83	2.16	2.09	1.99
Average number of children	0.94	0.86	1.02	0.89	0.66	1.11	0.82	0.76
Average number of workers	1.78	1.68	1.87	1.67	1.66	1.84	1.81	1.66
Average age of head	42	41	44	42	41	41	45	48

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Table 3.27

Indices of Income, 1979 and 1984.

	Professional & Technical	Administrative & Managerial	Teacher	Clerical	Manual Skilled	Semi-skilled	Unskilled
Index of gross income							
1979	119.7	130.3	115.7	87.5	96.6	85.4	73.5
1984	125.0	133.9	120.9	87.9	91.2	79.2	65.9
Index of equivalent income							
1979	118.8	129.0	115.1	88.5	96.2	86.2	76.3
1984	121.5	130.3	119.4	88.5	92.5	81.6	69.4

Diagram 3.26

Gross Income and Size of Household by Socio-economic Category of Head of Household, 1984.

Index of income

Number of people

Percentage of households with heads in each socio-economic category

income

size

percent

Professional and technical

Administrative and managerial

Teacher

Clerical

Manual skilled

Manual semi-skilled

Manual unskilled

All employees

278
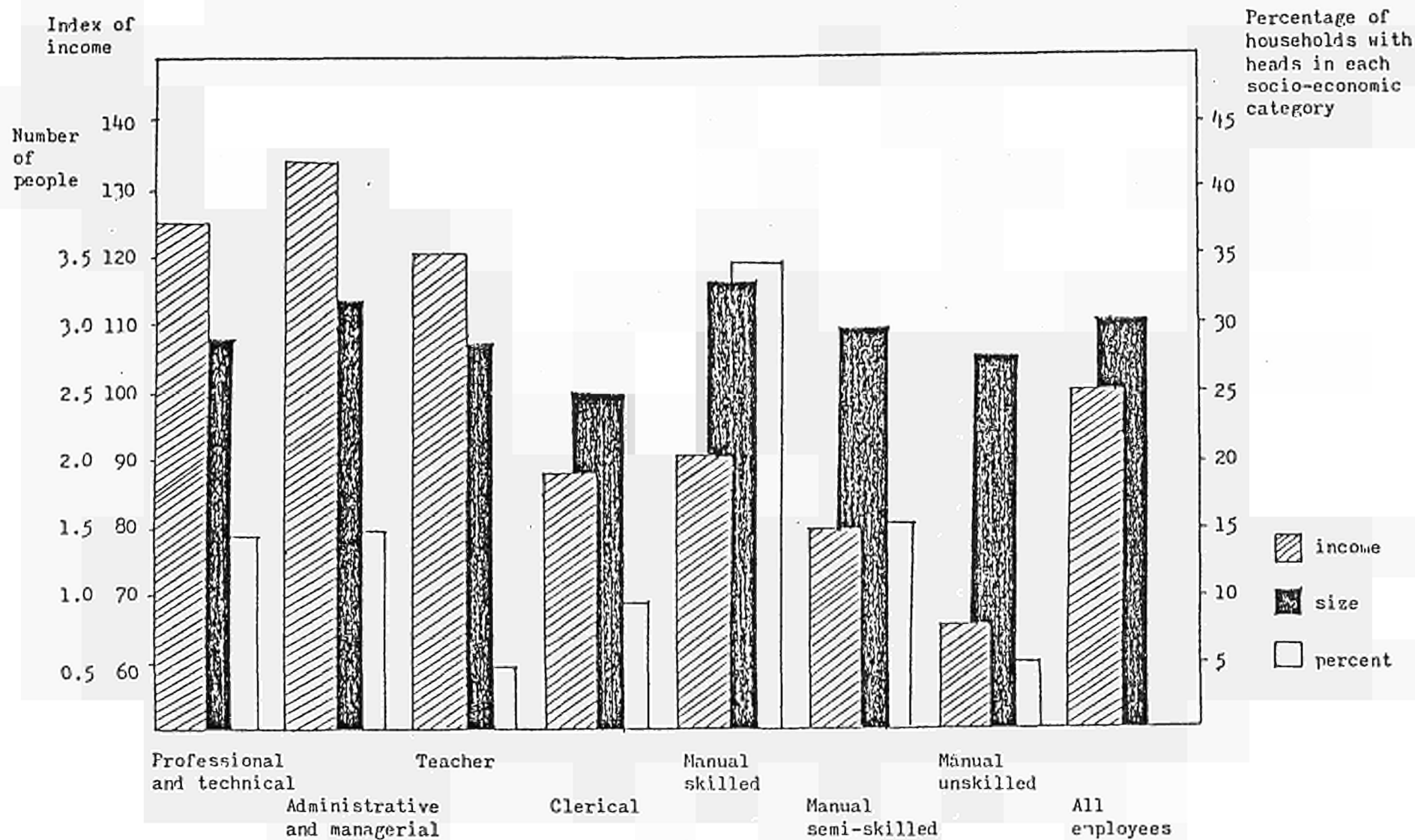
manual and non-manual workers will be greater than those seen here.

The age dispersion also suggests a tendency for the young in manual occupations to forego setting up home on their own till an older age than those in non-manual occupations. The higher number of adults and workers in certain groups may also be explained by these being the types of occupations where adult children are likely to live at home while training.[76]

TABLE 3.28

SOCIO-ECONOMIC STATUS OF HEAD AS A PERCENTAGE
OF EMPLOYEES IN DECILE, 1984.

	Decile (arranged by gross income)										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
Professional & Technical	3.6	6.0	6.3	6.2	7.7	10.3	10.7	15.2	17.4	27.0	13.9
Administrative & Managerial	4.0	3.5	4.8	2.6	6.4	9.4	11.8	14.7	21.2	31.5	14.6
Teacher	2.0	-	-	1.7	2.8	2.9	4.2	5.3	7.0	7.8	4.6
Clerical	5.6	10.4	13.2	18.2	10.8	9.1	10.3	9.9	8.8	6.0	9.9
Shop Assistant	-	7.9	7.1	2.5	2.2	0.8	0.7	1.0	0.6	0.6	1.4
Manual:											
Skilled	42.9	21.8	22.1	34.2	40.8	41.8	41.0	38.6	31.8	18.6	34.1
Semi-skilled	32.5	25.1	28.3	23.7	21.1	19.2	16.5	12.0	8.9	5.9	15.2
Unskilled	7.5	25.3	18.2	10.7	7.5	5.6	3.8	2.6	2.0	1.3	5.2
H.M. Forces	2.0	-	-	0.3	0.6	1.1	1.1	0.9	2.3	1.3	1.1

The effect of the socio-economic class of the head in determining the position of the household in the income distribution is shown in Table 3.28. It can be seen that professional and technical and administrative and managerial workers are more likely to be in the top half of the distribution and they constitute nearly 60% of all employees in the top decile. Teachers are concentrated in the top four deciles and clerical workers are reasonably evenly spread through the middle eight deciles. Skilled manual workers are fairly evenly concentrated in all but the top decile, their presence in the lowest deciles is likely to be due to training and apprenticeships before workers have reached their peak wages. Semi-skilled manual workers are largely found in the bottom half of the distribution as are unskilled manual workers.

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[76]. On the assumption that male children often follow the same occupation as the father.

TABLE 3.29

DISTRIBUTION BETWEEN MANUAL AND NON-MANUAL WORKERS, 1984.

Decile (arranged by gross income)

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Professional, technical, administrative, managerial & teachers	9.5	9.5	11.0	10.5	16.9	39.5	26.6	35.2	45.5	66.3
All manual workers	82.9	72.2	68.6	68.6	69.4	66.5	62.4	53.1	42.7	25.8

The distribution between manual and non-manual workers is more easily seen in Table 3.29. This shows that non-manual workers are more likely to be found in the top deciles and manual workers in the first seven deciles. However, manual workers form over half the workers in the 8th decile and over a quarter in the top decile. therefore, knowing that the head of household is a manual worker will not necessarily place the household in the middle and lower ranges of the income distribution. Even so, there does seem to be a fairly strong link between socio-economic status of head of household and the size of household income.

3.4.2   Education and Socio-Economic Class[77]

In the context of socio-economic class and household income it is also interesting to look at the effect of education on both class and income. Table 3.30 shows that the type of educational establishment last attended full-time has quite a significant bearing on social class of males. The manual and junior non-manual have very high percentages who have only been to school. However, the majority of employers and managers and intermediate non-manual also have over half whose last educational establishment attended was school. Only the professional class have over half who had any form of further education. However, it must be remembered that this is a sample of males of all age ranges and the educational qualifications required for many of the higher non-manual jobs have increased quite dramatically in recent years. There also seems to be quite a high correlation between highest qualification obtained and socio-economic class.

[77]. The information for this comes from the General Household Survey. Data for this is only available for 1983. The sample covers economically active males aged 25-69 not in full-time education.

Table 3.30

Socio-Economic Group by Educational Establishment last attended full-time and by Highest Qualification Obtained. G.B. 1983. Males.

Educational establishment:	Professional	Employers & Managers	Intermediate Non-manual	Junior Non-manual	Manual Skilled	Semi-skilled	Unskilled	All
School	32	77	57	80	93	94	98	82
Polytechnic, college	30	15	29	16	6	5.	2	12
University	38	8	14	4	1	1	-	6
Highest qualification:								
Degree	68	13	26	4	-	-	-	10
Higher education (below degree)	22	17	24	11	5	2	-	10
GCE 'A' level	4	11	12	13	7	4	1	8
GCE 'O' level & CSE Grade 1	2	18	13	25	12	7	5	12
CSE other grades	0	9	5	10	20	10	7	13
Foreign or other	2	5	4	4	3	4	2	4
None	1	26	16	33	33	74	86	44

Source : General Household Survey, 1983

Table 3.32

Educational Level of Son by Socio-Economic Group of Father, 1983.

Highest Qualification obtained by son:	Professional	Employers & Managers	Intermediate Non-manual	Junior Non-manual	Manual Skilled	Semi-skilled	Unskilled	Total
Degree	42	22	29	17	6	5	4	11
Higher education	16	14	17	14	12	9	6	12
GCE 'A' level	14	12	10	14	9	8	7	10
GCE 'O' level	16	18	18	18	15	11	12	15
CSE	2	7	6	8	12	13	13	11
Foreign or other	3	6	4	5	3	2	1	3
None	6	22	16	25	43	52	57	39

Source : General Household Survey, 1983

TABLE 3.31

HIGHEST QUALIFICATION LEVEL ATTAINED
BY GROSS WEEKLY EARNINGS 1983.
MALES, G.B.[78]

Qualification Level

% with earnings of:	Degree	Below Degree	GCE`A' level	GCE`O' level	CSE	None	Total
Under 70.00	1	2	2	3	3	7	4
70.01-80.00	1	1	3	3	4	4	3
80.01-90.00	0	1	3	4	6	6	4
90.01-100.00	2	2	7	6	9	9	7
100.01-120.00	6	8	14	15	18	18	15
120.01-140.00	5	11	16	18	[18]	[19]	15
140.01-160.00	8	14	[15]	[16]	16	15	[15]
160.01-180.00	8	[13]	12	10	9	8	10
180.01-200.00	11	11	8	7	6	5	7
100.01 and over	[58]	37	20	18	11	9	20

Source: General Household Survey, 1983.

The highest qualification obtained also seems to have a significant effect on the range of the earnings distribution males find themselves in (Table 3.31). As can be seen, the median earnings (in boxes) increase as educational qualifications increase and the dispersion around the median is fairly narrow. The level of highest qualification appears to be a better indicator of the level of weekly earnings than of socio-economic class, although all three do seem to be related.

3.4.3   Education Level by Socio-Economic
Group of Father

Given the importance of educational attainment in determining the level of earnings for an individual it is also interesting to see whether the educational attainment has any inter-generational influences within the family, that is, whether the educational attainments of the father will determine the male child's educational attainment and, therefore, his earnings level. If this is the case it is then difficult for a person born into a certain socio-economic class to rise into classes above, and also it predicts a certain stability in the income distribution over time, ceteris

[78].   Covers males aged 20-69 in full time employment. Median groups in boxes.

paribus. Unfortunately data on educational attainments of fathers and sons is not available and the nearest available is educational attainment of son by socio-economic class of father (Table 3.32). This is an imperfect proxy but it may give some clues as to the inter-generational stability of the income distribution if it were to be determined solely by the differential incomes received due to educational attainment and socio-economic class and the possibility of inter-generational household mobility within the income distribution.

Table 3.32 shows that 60% of the sons of professional fathers have higher education and between 30 and 47% of other sons with non-manual fathers have higher education or above. On the other hand, of those with manual fathers between 10 and 18% have degrees or other qualifications from higher education. Conversely, around 50% of sons with manual fathers have no qualifications, compared to around 20% of sons with non-manual fathers. The numbers who finished education with GCE `O' or `A' levels are fairly similar for all socio-economic classes of father. As higher qualification levels on the whole lead to higher income, it does seem that to quite a large extent the socio-economic category of the father and his earnings level will have a considerable influence on the educational level of the son and his earnings level. However, these are not fool-proof indicators and there is some evidence of inter-generational changes in socio-economic status. But it seems there is likely to be considerable inter-generational inequality in the distribution of income transmitted through the educational system and related to the earnings differentials of men, and consequently to household income.

3.5 Geographical Location of Household

In some countries it was suggested that the location of the household may be an important factor in the household distribution of income.

Diagram 3.33 and Table 3.34 show that there are some differences between areas, the main differences being in household gross income. The gross income in London is likely to be higher, due to London weightings given for living in London, and the likelihood that proportionally more people are involved in non-manual and professional jobs than in the rest of the country. The smaller size of household and fewer numbers of adults and workers suggests there are more single people, or people working in London when younger, and then moving further out as they get older and are thinking of starting families. The average head of head is slightly lower than for the whole country which supports this idea to some extent.

The low income of Metropolitan and Clydeside areas may be explained by the greater unemployment in these areas, and a disproportional amount of manual workers. The lower average number of workers per household despite an average number of

people and adults per household suggests that unemployment is certainly a large factor in the explanation of lower gross income. High population density and low population density non-metropolitan areas have similar incomes and household characteristics, the only difference being the slightly higher numbers of retired in the low population density areas.

Therefore it seems there are no major differences in household characteristics by location except for Greater London which has been discussed. The main regional difference is the size of income. This seems likely to be due to varying employment opportunities and the possible concentration of manual occupations in the Metropolitan areas and non-manual occupations in Greater London. Table 3.35 can be used to verify this. The classifications here are not exactly the same as those given before, but they are a fairly reasonable approximation.

DIAGRAM 3.33

Gross Income by Area, 1984.

Index of
gross income

Percentage of
households in
each area
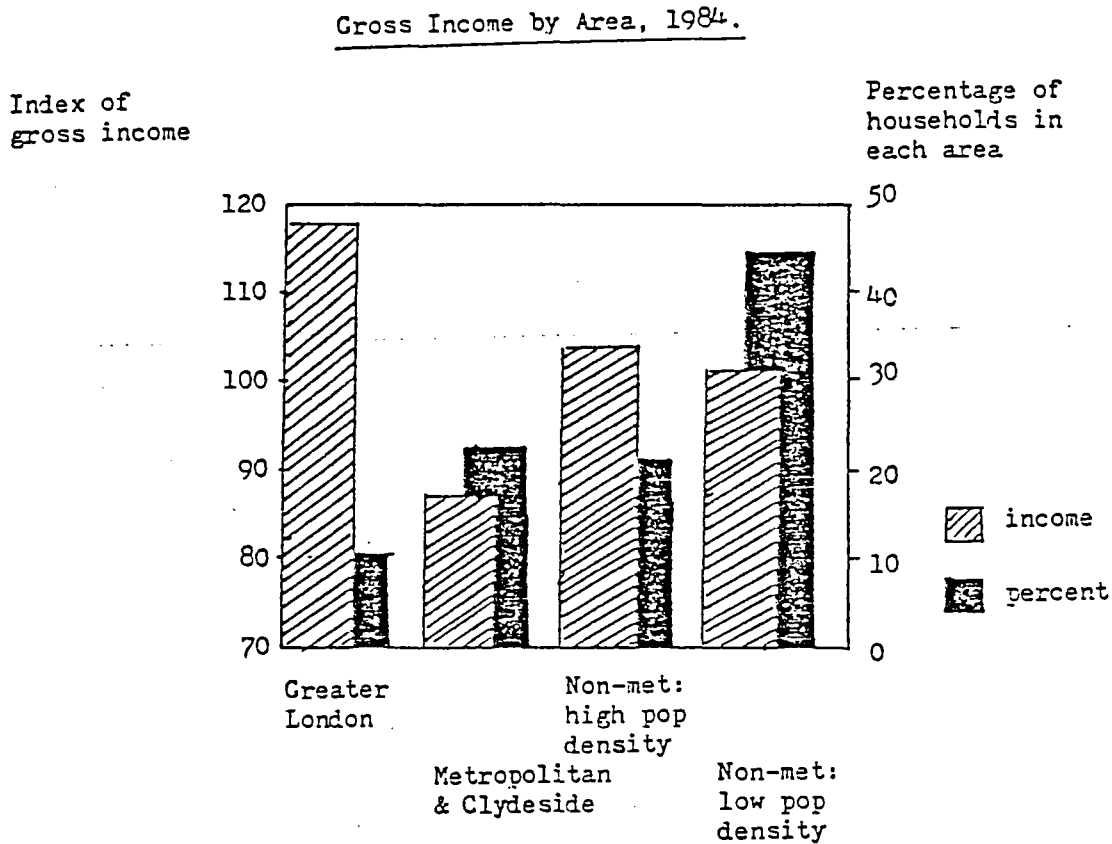
TABLE 3.34

HOUSEHOLD INCOME AND CHARACTERISTICS BY AREA 1984.

	Greater London	Metropolitan & Clydeside	Non-metropolitan: High pop.	Non-metropolitan: Low pop.	All
% Households in each area	10.4	23.4	21.5	44.7	7126
Index of gross income	117.2	87.5	103.2	101.0	£197.3⁻
Average number of people	2.39	2.60	2.66	2.70	2.6:
Average number of adults	1.85	2.92	1.92	1.94	1.9:
Average number of workers	1.17	1.07	1.24	1.21	1.1!
Average number over 65 (not working)	0.39	0.42	0.37	0.41	0.4(
Average age of head	50	51	50	51	51

TABLE 3.35

LABOUR MARKET RELATIONSHIP OF HEAD BY REGION 1984.

	Greater London	North Yorks, Humberside, North West	East & West Midlands	All U.K.
% employee heads who are:				
Professional, technical, admin. & managerial	39.3	22.4	26.9	29.4
Non-manual	59.7	35.0	38.3	45.9
Manual	40.1	60.3	58.1	53.0
% unoccupied heads	11.0	15.8	12.8	12.9
% heads who are employees out of a job	2.7	3.6	3.4	3.1

Table 3.35 shows clearly that there are regional differences in the employment opportunities in different areas. The North and Midlands have higher than average numbers of unemployed and unoccupied and also a larger percentage of manual workers. Greater London has fewer unemployed than the national average, and a much higher concentration of non-manual jobs and large numbers of people employed in the higher non-manual socio-economic categories. These factors would then seem to explain the regional differences in household income.

TABLE 3.36

PERCENTAGE OF HOUSEHOLDS IN DECILE IN AREA, 1984.

	Decile (arranged by gross income)										
	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	All
Greater London	10.3	9.4	9.1	9.9	8.6	8.0	8.0	11.1	12.4	17.4	10.4
Metropolitan & Clydeside	31.5	28.0	26.0	23.1	24.2	22.0	22.5	21.0	20.5	15.6	23.4
Non-Metropolitan: high population density	22.2	22.1	18.8	20.9	20.1	22.5	19.0	22.7	21.5	24.7	21.5
low population density	36.0	40.4	46.1	46.1	47.2	47.5	50.6	45.3	45.6	42.3	44.7

The distribution of households in each area by decile shows no really dominant effects although, as expected, Greater London has a high percentage of people in the top deciles and Metropolitan districts have higher percentages in the bottom deciles. The distribution of non-Metropolitan households is fairly even across deciles. It would, therefore, seem that knowing in which area a household is located will do little to position it in the income distribution unless further characteristics of the household are known.

3.6 Racial Factors

It is possible that racial factors, that is ethnic origin, may have some bearing on the income level a household finds itself at. Whilst this may well be true, information on ethnic origin is not collected with the data on household income and characteristics. The information that is available is confused as some is classified by country of birth, which is not useful when looking at ethnic minorities as many were born in Britain. The information that is available classified by ethnic origin is the relative percentages that are economically active and unemployed.

TABLE 3.37

ECONOMIC STATUS OF THE POPULATION OF WORKING AGE
BY ETHNIC ORIGIN, 1984.   G.B. MALES.

Ethnic Origin	Number (000's)	Activity Rate (%)	Unemployment Rate (%)
White	16281	88.2	9.8
West Indian or Guyanese	178	84.7	24.2
Indian/Pakistani/Bangladeshi	409	82.6	16.3
Other[79]	212	69.2	12.1
All	17327	87.7	10.1

Source: Social Trends 1987.

Table 3.37 shows that there are less economically active males amongst the ethnic minority groups, and among those economically active there are a higher percentage unemployed. As employment status relates strongly to income it would be expected that these ethnic minority groups would be disproportionately over-represented in the lower part of the income distribution.   The largest group, Indian, Pakistani and Bangladeshi males are likely to suffer the most unemployment and, therefore, be most highly represented amongst the lower income groups. However, this is all based on high unemployment and says nothing about the distribution under normal conditions, although other research suggests that coloured workers tend to have low paid and often unskilled jobs, therefore they would still be expected to be found in the lower parts of the income distribution.

3.7   Summary

Having examined various factors which may predispose households to be in a certain part of the income distribution, it appears there are a few which exert a definite influence. These are employment status of the head, the number of workers in the household and the life-cycle phase, which is connected to the first two.   The head's socio-economic status and educational attainment appears to exert some influence too.

If a family has a large number of employed adults in the higher socio-economic groups it is likely to be found in the top deciles.   A high socio-economic status of the head of

[79].   Includes African, Arab, Chinese, other stated and mixed.

household on its own has been seen not to guarantee this, and the number of workers in the household appears to be related to the life-cycle phase of the household, such that younger households have lower incomes and fewer workers which both increase with age to a peak around when the head is 50 years of age. Therefore, any household is likely to find itself in different parts of the income distribution throughout its life. This is particularly emphasised by the low incomes received by pensioners, although being in a higher socio-economic group during working years is likely to make the income received when retired higher than is the case for other socio-economic groups. The pensioners that have the lowest incomes are those mainly dependant on state benefits.

If households at the same stage in the life-cycle, with the same household characteristics, i.e. numbers and ages of adults, children and workers, are considered, their income distribution will largely be determined by the socio-economic class of the head of household. If only employed households are considered it is likely that their position within the income distribution is determined by the number of workers, which is, in turn, related to the life-cycle phase, and, to some extent, by the socio-economic class of the head.

For other households the lack of a working head tends to put the household lower down the income distribution with single parent families, the unoccupied, the unemployed and the retired mainly dependant on state pensions at the bottom. It is also likely that ethnic minorities will be disproportionately represented here due to their high rates of unemployment.

The location of the household in the North or the South of the country does appear to have some influence on the position of the household in the income distribution. However, this is not due to different wages being paid for the same jobs or any differences in family characteristics, instead the differences would appear to be due to the availability and type of employment in the area, with the possibility of a high concentration of low paying industries in the North.

Of those that are employed it would seem the position of the household in the income distribution is, to some extent, inter-generationally transferred, due to some correlation between father's and son's socio-economic status. This would be at its most apparent if peak incomes were compared, however, at a point in time, the effects of this may be mitigated by the life-cycle influences on the position of the household in the income distribution. However, the possibility of social status being an inter-generational phenomenon is widely accepted, and other research has concluded that "structures of inequality of both condition and opportunity .... are inherently resistant to change. The members of the higher strata have the motivation and, in general, the resources to hold onto their position and to transmit it to their children while the members of the lower strata are often caught up in vicious circles of

deprivation."[80]

Some of the factors that are likely to cause households to be in the bottom part of the income distribution have already been briefly mentioned. More information on this can be gained from looking at some of the recent studies on poverty.

Van Slooten and Coverdale (1977) looked at low income households, defined as the lowest quintile of the distribution of equivalent normal disposable income, using 1975 FES data. All these households had equivalent incomes at or below the supplementary benefit level plus 20%. They found 55% of these households were pensioner households, and the second largest group were two parent families typically headed by a man in work. However, the prevalence of low income was highest for pensioner households, one parent families and the long-term unemployed, although these last two groups did not feature very highly in the sample in terms of numbers. Of those households with employed heads the prevalence of low income was highest for unskilled manual workers and lowest for households headed by professional and technical workers, and higher for those households with only one worker, in comparison to those with two or more workers. The prevalence of low income was also considerably higher in the North than in the South of the country.

A more recent comparison of the lowest quintile of households by equivalent income for 1971 and 1984 (Social Trends 1987) shows that whereas in 1971 over half these households were pensioner households, in 1984 pensioner households made up only one quarter of the total. The number of single parent families increased slightly, and the percentage of working age couples with children and single people of working age increased dramatically. This shift in the composition of the lowest quintile reflects the increase in unemployment over the period.

Table 3.38 shows the increase in numbers of low income families, where low income is defined as being on supplementary benefit or having income within 20% of the supplementary benefit level. Between 1979 and 1983 there have been dramatic increases in the numbers both on supplementary benefit and within 20% of this level. Most of this increase has been due to the increase in the numbers of long-term unemployed, although there are also more families with working heads who are below the supplementary benefit level. Pensioners have not fared so badly and the numbers on supplementary benefit have decreased slightly.

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[80]. Goldthorpe in Wedderburn (ed) (1974) p.218.

TABLE 3.38

LOW INCOME FAMILIES G.B.
(Thousands)

	Total	Full-time work or self-employment	Unemployed more than 3 months	other under pension age	over pension age
1979					
On supplementary benefit	2590	-	380	360	1680
Not on supplementary benefit with income:					
Below SB level	1400	180	100	220	850
Above but within 20% of SB level	1590	170	60	70	1230
1983					
On supplementary benefit	3640	-	1290	580	1600
Not on supplementary benefit with income:					
Below SB level	1880	290	370	300	870
Above but within 20% of SB level	2000	350	210	160	1220

Source: Social Trends 1987 (DHSS)

TABLE 3.39

POVERTY AMONGST ADULTS BY AREA, 1983.

	Not in poverty	All in poverty	Sinking deeper	In intense poverty
London	14	13	11	11
Rest of South	37	20	16	10
Northern Conurbations	31	40	45	65
Rest of North	18	27	27	14
All	100	100	100	100

Source: Mack and Lansley (1985) Table 6.8.

A recent large study on relative poverty[81] (Mack & Lansley, 1985) shows that there were 7.7 million people in Britain in 1983 who could not afford three or more necessities, i.e. were in poverty. By looking at the net equivalent income distribution they found the vulnerability to deprivation to extend through the bottom 30-40% of the distribution, and families with children were the worst off. Unemployment was found to be a very strong factor in causing poverty, two-thirds of the households that were found to be in intense poverty had unemployed heads.

The significance of old age as a cause of poverty was found to have declined in the post-war years, while the recession and unemployment have caused other groups to constitute the majority of those found in poverty. Over two-thirds of those in poverty were found to live in the North of the country, while under half of the comfortably off live in these areas, and the impact of the recession in Northern cities is shown by the high concentration of those in intense poverty (Table 3.39).

The results then back up the previous findings of causes of people being in the lower part of the income distribution. Long-term unemployment is one of the main causes of households being found in the lowest deciles and single parent families and unskilled manual workers also have large chances of being found in these deciles. Pensioners are less highly represented here than they have been previously, although those on state pensions have very low incomes.

Overall then it seems that there are strong factors which predispose households to be in certain parts of the income distribution, and these are particularly evident when looking at the factors which predispose a household to be in the lowest parts; being retired on a state pension, long-term unemployed, or a single parent family are often sufficient to place the household in this part. However, for the other parts of the distribution, examination of various contributing factors by deciles reveals that knowledge of any one aspect of the household; size of household, age, employment status or socio-economic class of the head; is not sufficient to locate a household within any particular decile or quintile. Instead it seems that various factors either combine or inhibit one another to determine where the household will lie, and it is only specific combinations of these factors that will result in households being located in a certain part of the income distribution

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[81]. A cross-section of the population was asked which of a list of items they considered necessities and a surprising amount of consensus was found. Households were then asked if they had, or could afford, the items defined as necessities, and if they lacked three or more of these they were defined as suffering from relative poverty. If they lacked six or more they were defined as being in intense poverty.

4.   CONCLUSION

In the introduction it was suggested that changes in demographic factors; such as the age distribution of the population or the size and composition of households; economic factors; such as changes in labour force participation and the availability of jobs; and changes in government commitment to the welfare state and associated benefits might each significantly affect the distribution of income. To the extent that any of these affects a particular household, they are likely to be instrumental in determining where the household lies within the distribution and, of course, when the individual households are aggregated, will determine the whole distribution. Examination of the changes in these factors in conjunction with changes in the composition and overall nature of the distribution has revealed the relative importance of each one.

The increasing ageing population in the U.K. in the period covered, 1973 to 1984, has been shown to some extent to increase the inequality in the distribution as pensioner households are likely to have low incomes, so increasing the number of low income households. However, this tendency has been to some extent offset by the increase in the number of pensioner households with occupational pension which are considerably higher than those provided by the state. Furthermore, any increase in inequality due to the changing age structure of the population has been largely overshadowed by economic factors to which the increasing inequality in the distribution can be largely attributed in recent years.

It would appear that the most important economic factor in the determination of the distribution is the availability of jobs. The increasing labour force participation of married women has been attributed largely to the increasing employment opportunities available to them. This increased participation has been shown to increase the inequality in the distribution in so far as households with two or more workers have a much higher probability of lying in the upper deciles, and as the number of these types of households increase, the average incomes of the upper deciles will become higher, whilst those at the bottom remain unchanged. Conversely, reduced availability of jobs, resulting in increasing unemployment in the economy will also lead to increased inequality in the distribution of income if unemployment benefits are low. This results in households suffering from unemployment to be likely to move down to the bottom deciles and thus swell the numbers on low incomes.

In the second period studied, 1979 to 1984, it has been amply demonstrated that a large percentage of the low income households are households with an unemployed head, particularly one who is long-term unemployed, which results in unemployment benefit being stopped and the household having to survive on

supplementary benefit. These households now constitute some of the poorest in the U.K., often having incomes below those of pensioner households, and thus resulting in many of these pensioner households moving from the bottom quintile into the second quintile. The importance of job availability in determining the household income level and the overall distribution is most clearly demonstrated when looking at the North/South divide. In the North average household income levels are considerably lower, there are higher rates of unemployment and the probability of being in the lower deciles is much higher than for households in the South. However, whilst the regional levels of unemployment have a very strong bearing on this divide the importance of the availability of jobs, in terms of the types of employment available, and the extent to which there are employment opportunities for both men and women to work, also affect this regional divide. As has already been shown, there is a higher concentration of manual work in the North than in the South, and thus the regional averages of household income reflect both differential unemployment and levels of pay between manual and non-manual workers.

The influence of both the above mentioned factors has, in part, been dependant on the levels of state benefits. Low levels of benefits and an increasing number of households dependant on them will alter the overall distribution of income if the incomes of those households not dependant on benefits remain unaffected. A government's commitment to maintain or reduce benefit levels will have a profound effect on the distribution of income in the face of changes in other factors. A commitment to maintain benefit levels can have the effect of creating stability in the distributions of gross and disposable incomes, even when economic and demographic conditions are operating to increase inequality, as shown under the Labour government of 1974 to 1979. However, reduction of benefit levels will allow these other influences to take their toll and increase the inequality, as has been seen under the Thatcher government, where benefit levels have been very low on average, not least because of the abolition of earnings related supplements for many short-term benefits.

The position of the individual household in the distribution is also most reliably predicted from knowledge of the extent to which any of the above factors affect the particular household; if it is a pensioner household dependant on state benefits, or a household with an unemployed head, it is likely to be found at the lower end of the distribution, whereas if it is a household with two or more workers it has a high probability of being found at the upper end of the distribution. Other factors, such as the socio-economic class and life-cycle phase of the head, will also have some, but a much lesser, influence on the position of the household in the distribution. there is also some suggestion in the data looked at that inequality stems not only from the decrease in the number of jobs, but also from increasing restricted access to employment for particular types of households; for example,

those located in the North, those from the ethnic minority groups, those without a head with formal qualifications, and those headed by single parents. Systematic discrimination in access to income increases the importance of inequality in the income distribution as it is no longer due to either life-cycle factors or to chance economic factors; instead it becomes a more permanent and a less transitory condition.

In conclusion, demographic changes, such as an increasingly ageing population, and economic changes, such as the increase in unemployment and the changing availability of jobs, have the potential to increase inequality in the distribution of income; although the effects of the ageing population have been far outweighed by the effects of increasing unemployment in the period being studied. The welfare state and levels of benefit payments can be used to offset or even negate this potential increase in inequality, or else they can be reduced to levels sufficient only for a minimum standard of living, and so let the economic factors be the dominant effects, and thus allow the possibility of increased inequality in the distribution of income.

APPENDIX 1 - THE F.E.S. SURVEY

The Family Expenditure Survey is based on a representative sample of private households in the U.K. and has been in operation since 1957. The survey looks at household characteristics, income and expenditure at a national level and household characteristics, income and expenditure at a regional level.

All types of private households in the U.K. are covered by the survey. In all years since 1967 a set sample of about 11,000 addresses in the U.K. was selected. Of these about 10,800 are in Great Britain and about 280 in Northern Ireland. Households at the selected addresses were visited in turn and asked to co-operate. Provided that all persons aged 16 and over in the household co-operated each was subsequently paid £5 for the trouble involved in supplying the information. The sample is designed so that each household has an equal chance of selection, and also so that the interviews can be spread evenly over the year. The U.K. sample of 11,000 addresses contained some which were found to be those of hotels, boarding houses, institutions etc. (which were outside the scope of the survey) or which contained no households. On the other hand, some addresses contained more than one household. Allowing for such circumstances, an effective sample of households was obtained, equivalent to about 1 in 2000 of all households. In some of the households visited one or more members did not wish to participate in the survey or could not be contacted after repeated calls. The co-operating households represented 68% of the effective U.K. sample in 1984.

Reliability

Data produced from any sample survey as detailed and complex as the FES are inevitably subject to errors of various kinds. Very great care is taken in collecting information from households and comprehensive checks are applied during processing, so that errors in recording and processing are minimal. the main types of error that affect the reliability of the survey results are sampling errors, non-response bias and some mis-reporting of certain items of expenditure and income. In 1984 co-operation could not be obtained from some 32% of the effective sample. Most of these were households that did not wish to take part; in only about 1.75% of the sample was the interviewer unable to contact anyone living at the selected address: the remaining 30% are refusals.

There is evidence that the characteristics of these households differ from those who co-operate, and it is therefore possible that their patterns of expenditure and income also differ somewhat. Studies of the households responding in the 1971 and 1981 FES in relation to the figures from the census of population have found substantial response

variations. The 1981 comparison indicated that households without children, and those where the head was, or had been, self-employed produced lower response rates. Particularly marked was a fall in response with age, while response was lowest for multi-car households. Analyses made for the first time (in respect of 1981) showed that among male heads of households response rate rose directly with level of qualifications, but conversely declined in the case of female heads of households. There is some evidence from further study that response rates appear to be lower among households living in dwellings with higher rateable values; this is partly borne out by an analysis of tenure in both the 1971 and 1981 FES comparisons which indicate a lower response rate for the owner-occupied. However, in general, comparisons of the results of surveys over successive years justifies confidence in their general reliability, and examination of the characteristics and expenditure and income patterns of various groups of households shows a high degree of internal consistency.

It is thought that averages of household income recorded in the FES are on the low side, principally because certain forms of income, such as income from investment, occupational pensions, or self-employment may be under-estimated. Nevertheless, evidence for this is limited; for example, studies have shown that earnings data in the survey tend to be slightly deficient, though generally within a few percent of those indicated by other sources, such as the New Earnings Surveys, other earnings surveys by the Department and national income statistics. The main identified weaknesses in the survey were found to be an understatement of earnings by women in part-time employment, and an under-representation of the highest 1% of earners, which are relatively minor defects.

The sample sizes for each year are:

1973	7126 households
1979	6777 households
1984	7081 households

APPENDIX 2 - DEFINITIONS USED IN 1984.

Household

A household comprises one person living alone or a group of people living at the same address, having meals prepared together and with common housekeeping. Resident domestic servants are included. The members of a household are not necessarily related by blood or marriage. As the survey covers only private households people living in hostels, hotels, boarding houses or institutions are excluded. Households are not excluded if some, or all members are not British subjects, but no attempt is made to obtain records from households containing members of the diplomatic service of another country, or members of the United States armed forces.

Head of Household

The head of the household must be a member of the household. He/she is the person, or the husband of the person, who:

a) owns the household accommodation, or
b) is legally responsible for the rent of the accommodation, or
c) has the household accommodation as an emolument or perquisite, or
d) has the household accommodation by virtue of some relationship to the owner who is not a member of the household.

When two members of different sex have equal claim, the male is taken as head of household. When two members of the same sex have equal claim, the elder is taken as head of household. In this analysis we do not know anything about the relative proportions of male and female heads when data is classified by ranges of gross weekly income.

Members of Household

In most cases the members of co-operating households are easily defined, in that they are the people who come under the definition of household who are present during the record keeping period. However, difficulties of definition arise where people are temporarily away from the household or else spend their time between two residences. The following rules apply in deciding whether or not such persons are members of the household:

a) Married persons living and working away from home for any period are included as members, provided they consider the sampled address to be their main residence.

b) In general, other people (e.g. relatives, friends, boarders) who are either temporarily absent or who spend their time between the sampled address and another address are included as members if they consider the sampled address to be their main residence.

c) However, there are exceptions which override the subjective main residence rule:

(i) Children under 16 away at school are included as members.

(ii) Older persons receiving education away from home, including children aged 16 and under 18, are excluded unless they are at home for all or most of the record keeping period.

(iii) Visitors staying temporarily with the household and others who have been in the household for only a short time are treated as members, provided they will be staying with the household for at least one month from the start of record keeping.

Adults

Persons who have reached the age of 18 or who are married are classed as adults.

Children

Persons who are under 18 years of age and unmarried are classed as children.

Persons working

Persons working are persons aged 16 or more who fall within the following categories:

(a) Employees at work: those who at the time of interview are gainfully employed full or part-time, and are attending work, or are absent on holiday only. Part-time work is defined as normally occupying 30 hours a week or less, including overtime regularly worked.

(b) Employees temporarily away from work: those who at the time of interview had a job to go to but were absent from it for a reason other than holiday.

(c) Employees not currently employed: those having no job at the time of interview, either through sickness, injury or other reason, but who have indicated that they intend to seek work or are seeking work. From 1982, persons are not included in this category if their last job was more than a year ago or if they have never worked.

(d)   Self-employed: those who at interview stated that they
were self-employed,   including some persons who work
minimal hours.   However, from 1982 persons usually working
30 hours per week and less and earning an average under a
specified amount (£4.00 per week in 1984) are excluded.

Persons not working

(a)   Retired: persons classed as retired are all those not
working who have reached the age for receipt of national
insurance retirement pension, i.e. 65 and over for men and
60 and over for women, whether or not they previously
worked for gain.

(b)   Unoccupied: persons, other than workers, who have not yet
reached the age for receipt of national insurance
retirement pensions are classified as unoccupied, whether
or not they have worked for gain at any time e.g.
housewives and people in full time education provided they
are not working for financial remuneration.   This category
includes, from 1982, school leavers and other persons who
have never worked, employees away from work (for whatever
reason) for more than a year and certain self-employed
persons such as mail order agents and babysitters not
classified as workers.

Occupation

The occupational classification is based on, but not
identical with, the Social Classes used in the Classification
of Occupations, 1980 prepared by the Office of Population
Censuses and Surveys.   As far as possible occupation is
classified according to an individual's current or most recent
job;   if he has more than one job the most remunerative one is
regarded as the occupation by which he should be classified.

Types of Administrative Area

These are Greater London, Metropolitan Counties in England
with the Central Clydeside Conurbation in Scotland, and non-
Metropolitan districts with high and low population densities,
i.e. 3.2 persons or more, and less than 3.2 persons per acre
respectively (7.9 persons per hectare).   All Northern Ireland
districts are treated as non-Metropolitan.

Income

The standard concept of income in the survey is, as far as
possible, that of gross weekly cash income (but including
imputed income from owner/rent-free occupancy) current at the
time of interview, i.e. before the deduction of income tax
actually paid, national insurance contributions and other
deductions at source.   However, for certain tables a concept of
disposable income is used, defined as gross weekly cash (plus
imputed) income less the statutory deductions of income tax

(taking refunds into account) and national insurance contributions. As a result of the introduction of Mortgage Interest at Source (MIRAS) in April 1983 for most owner occupiers still purchasing their homes, the amount of income tax recorded in the survey in 1984 will have been higher than under previous tax arrangements and recorded disposable income correspondingly lower: gross incomes were not affected by the change. The cash levels of certain items of income recorded in the survey by households receiving supplementary benefit will have been affected by the Housing Benefit scheme introduced in stages from November 1982.

Although information about most types of income is obtained on a current basis some data, principally incomes from investment and self-employment, are estimated over a twelve month period. The major exceptions to the general concept are the treatment of the earnings of employees during short periods of absence from work without pay; the inclusion of an amount to represent a notional addition to income for households which pay no rent; and the inclusion of imputed income from the owner-occupancy of housing. Each is described in greater detail in later paragraphs.

The following are excluded from the assessment of income:

(i) money received from one member of the household to another other than wages paid to resident domestic servants;

(ii) withdrawals of savings, receipts from maturing insurance policies, proceeds from sale of financial and other assets, winnings from betting, lump-sum gratuities and windfalls such as legacies;

(iii) the value of educational grants and scholarships not paid in cash;

(iv) the value of income in kind, including the value of goods received free and the abatement in cost of goods received at reduced prices, other than the imputed value of owner-occupied and of rent-free accommodation, of meal vouchers, and of bills paid by someone who is not a member of the household;

(v) loans and money received in repayment of loans.

Details are obtained of the income of each member of the household. The income of the household is taken to be the sum of the incomes of all its members. The information does not relate to a common or fixed time period. Items recorded for periods greater than a week are converted to a weekly value.

Particular points relating to some components of income are as follows:

a)   Wages and Salaries of Employees

The gross normal wages or salaries of employees are taken to be their earnings. These are calculated by adding to normal `take-home' pay amounts deducted at source, such as income tax payments, national insurance contributions and other deductions, e.g. payments into firms social clubs, superannuation schemes, works' transport, benevolent funds, etc. Employees are asked to give the earnings actually received, including bonuses and commission, the last time payment was made and, if different, the amount usually received. It is the amount usually received that is regarded as the normal take-home pay. Additions are made so as to include in normal earnings the value of occasional payments, such as bonuses or commissions received quarterly or annually. If an employee has been away from work without pay for 13 weeks or less he is regarded as continuing to receive his normal earnings in preference to social security benefits such as unemployment or sickness benefit that he may be receiving. Otherwise, his normal earnings are disregarded and his current short-term social security benefits taken instead. Wages and salaries include any earnings from subsidiary employment as an employee. They also include earnings of H.M. Forces.

b)   Income from Self-Employment

Income from self-employment covers any person income from employment other than as an employee; for example as a sole trader, professional or other person working on his own account or in partnership, including subsidiary work on his own account by an employee. It is measured from estimates of income or trading profits, after deduction of business expenses but before deduction of tax, over the most recent twelve-month period for which figures can be given. Should a loss have been made no income would be recorded. The value of goods supplied from a household's own shop or farm is included in income by an allowance made by Inland revenue when the profits of the business are assessed for tax purposes. Persons earning only small amounts from occasional activities such as mail order agency, and with no other employment, have been classified as unoccupied rather than as self-employed and the earnings involved have been classified as earnings from `other sources' rather than as self-employment incomes.

c)   Income from Investment

Income from investments or from property, other than that in which the household is residing, is the amounts received during the twelve months immediately prior to the date of the initial interview. If income tax has been deducted at source the gross amount is estimated by applying a conversion factor during processing.

d)   <u>Social Security Benefits</u>

Income from social security benefits does not include the short-term payments such as unemployment or sickness benefit (including Statutory Sick Pay introduced in April 1983) received by an employee who has been away from work for 13 weeks or less, and who is therefore regarded as continuing to receive his normal earnings.

e)   <u>Income from Sub-letting Accommodation</u>

Since 1981 receipts from sub-letting part of the dwelling (net of the expenses of the sub-letting) have been counted as an addition to investment income.

f)   <u>Imputed Income of Households which Pay No Rent</u>

For households living in rent free accommodation an imputed value is added to the income of the head of household to represent the gain through the absence of a charge for rent. As with owner-occupied housing the amount used is the weekly equivalent of the adjusted rateable value.

g)   <u>Imputed Income from Owner-Occupancy</u>

An imputed value is added to the income of the head of the household living in an owner-occupied dwelling. Although no money passes between the owner and the occupier of a dwelling when they are the same person, the services of the dwelling do, nevertheless, have a value equivalent to the net income which could be obtained by letting the dwelling to a tenant. the amount used is the weekly equivalent of the adjusted rateable value.

HEADINGS USED FOR IDENTIFYING INCOME INFORMATION

Source of Income

	REFERENCES IN TABLES	COMPONENTS SEPARATELY IDENTIFIED	EXPLANATORY NOTES
a	Wages and salaries	Normal "take-home" pay from main employment "Take-Home" pay from subsidiary employment Employees' income tax deduction Employees' National Insurance contribution Superannuation contributions deducted from pay Other deductions	(i) In the calculation of household income in this report, where an employee has been away from work without pay for 13 weeks or less his normal wage or salary has been used in estimating his total income instead of social security benefits, such as unemployment or sickness benefit, that he may have received. Otherwise such benefits are used in estimating total income (see notes at reference e) (ii) Normal income from wages and salaries is estimated by adding to the normal "take-home" pay deductions made at source last time paid, together with the weekly value of occasional additions to wages and salaries (see definition 15(a)) (iii) The components of wages and salaries for which figures are separately available amount in total to the normal earnings of employees, regardless of the operation of the 13-week rule in note (i) above. Thus the sum of the components listed here does not in general equal the wages and salaries figure in tables 21-23 and 31 of this report
b	Self-employment	Income from business or profession, including subsidiary self-employment	The earnings or profits of a trade or profession, after deduction of business expenses but before deduction of tax
c	Investments	Interest on building society shares and deposits Interest on bank deposits and savings accounts including National Savings Bank	. . .
c	Investments (continued)	Interest on British Savings Bonds Interest and dividends from stocks, shares, bonds, debentures and other securities Income from trust or covenant Rent or income from property, after deducting expenses allowed for income tax (including receipts from letting or sub-letting part of own residence (net of the expenses of the letting or sub-letting)). Other unearned income	
d	Annuities and pensions, other than social security	Annuities Pensions from central or local government services or from the armed forces Other pensions	.
e	Social security benefits	Child benefit Family income supplement Unemployment benefit Sickness benefit Invalidity pension or allowance and attendance allowance Disablement or war disability pension or allowance Widows' benefits Retirement or old age pension Supplementary allowance or pension Any other benefit	(i) The calculation of household income in this report takes account of the 13-week rule described at reference a, note (i) (ii) The components of social security benefits for which figures are separately available amount in total to the benefits received in the week before interview. That is to say, they include amounts that are discounted from the total by the operation of the 13-week rule in note (i). Thus the sum of the components listed here differs from the total of social security benefits used in the income tables of this report
f	Imputed income from owner/rent-free occupancy	For owner-occupied and rent-free dwellings, the rateable value of the dwelling	Rateable values are adjusted in proportion to increases since last valuation in an index of gross rents and housing subsidies (see definitions 15(f) and (g))
g	Other sources	Married woman's allowance from husband temporarily away from home Alimony or separation allowances; allowances for foster children, allowances from members of the armed forces or merchant navy, or any other money from friends or relatives, other than husbands outside the household Benefits from trade unions, friendly societies etc. other than pensions Value of meal vouchers Earnings from intermittent or casual work over twelve months, not included in a or b Money scholarships received by persons aged 16 and over Money scholarships received by children under 16 Other income of children under 16	eg from spare-time jobs or income from trusts or investments

APPENDIX 3
CHANGES IN DEFINITIONS USED 1973-1984

Changes in Definitions used 1973-1979

Following the reorganisation of local government types of administrative area were redefined.

Adjustments to the rateable values used as the basis of imputed income of owner-occupiers and households living rent-free were made in accordance with the movements of an index of gross rents and housing subsidies instead of changes in the rent component of the housing section of the General Index of Retail Prices. Also 1978 assessments of rateable values in Scotland were used in the calculation of imputed income and housing expenditure of owner-occupiers and those living rent-free.

Occupational categories changed between 1973 and 1979. The manual category of 1973 is broken down further in 1979 to give skilled, semi-skilled and unskilled workers. This information is not available for 1973.

Information on disposable income is only available for 1979 and 1984 not 1973.

In 1979 and 1984 a category 'employee out of a job' was given as a subset of the employee category, this information is not available for 1973 and employees out of a job are counted as employees in this year.

The categories of composition of household have been reduced considerably between 1973 and 1979. The options that are no longer available are: 2 adults with 4 children, 5 children or 6 or more children - this is now given as 2 adults with 4 or more children, 3 adults with 2 children, 3 children, 4 or more children - this is now given as 3 adults with 1 or more children, 4 adults with 0, 1 or 2 or more children, 5 adults with 0 or 1 or more children - these are now given as 4 or more adults or 4 or 5 adults with 1 or more children. The category others without children has been omitted completely. This is likely to lead to underestimation of the numbers of adults and children per household in 1979 and 1984 as these numbers were computed on the basis of each household having the minimum number allowed by the category in the absence of any more accurate information.

The 1979 and 1984 data can also be classified by chief economic supporter, rather than the head of the household. However, this option is not available for 1973 so head has been used throughout for comparability.

The location categories in 1973 and 1979 and 1984 are as follows:

1973	1979/1984
Greater London	Greater London
Provincial Conurbations	Metropolitan & Clydeside Conurbations
Other Urban	Non-Metropolitan:
Rural	High population density
	Low population density

The 1973 Administrative areas use the definitions by the Registrars General for England and Wales, for Scotland and for Northern Ireland to classify local authority areas for the survey.

In 1973 persons working are gainfully employed full-time or part-time as an employee or self-employed. If workers are unemployed or away from work because of sickness they continue to be categorised as workers provided the period away from work has not exceeded 5 years. The same applies in 1979 where 'workers out of a job' were not included as workers if the last job was more than five years ago. In 1984 this definition was changed so that employees that had been away from work for over 1 year were classified as unoccupied.

Changes in definitions used 1979-1984

There was a change in occupational coding of mail order agents from manual to clerical within the self-employed group.

Receipts from letting or sub-letting were no longer deducted from housing costs and appeared (net of the expenses of the letting or sub-letting) as investment income.

Persons working

The following three groups of persons previously classified as workers are instead counted as unoccupied:

a)   those who have never worked e.g. school leavers without a job
b)   employees who have been away from work for over a year

c)   persons such as mail order agents and baby sitters whose primary status is (part-time) self-employed but who earn on average less than a specified amount per week unless they usually work more than 30 hours per week.   the earnings involved are classified as earnings from `other sources' rather than as self-employment income.

Housing Benefit Scheme

Under the Housing Benefit Scheme introduced in stages from November 1982, some cash transactions (related to housing, for example rent, rates and rebates) previously recorded in the survey by households receiving supplementary benefit were eliminated leading to identically reduced levels of both recorded income and expenditure.

Mortgage Interest Relief at Source (MIRAS).

The scheme for applying mortgage interest tax relief at source for many households purchasing their own homes was introduced in April 1983.   Under the scheme, income tax payments reported in the FES by most households with mortgages under £30,000 no longer reflect their total tax liability because relief at the basic rate (30%) is deducted at source from their interest payment by their lending institution. Income tax payments are therefore higher, and disposable income correspondingly lower, than under previous arrangements; and the figures reported in the 1984 FES for mortgage payments, income tax and disposable income are not comparable with those in earlier surveys.   It is estimated that 2343 households in the 1984 FES were affected by MIRAS, representing nearly 90% of owner-occupiers with a mortgage, or over 30% of all households. For households affected by MIRAS, in 1984 average reported income tax payments are estimated to be about £7 per week higher (and disposable income correspondingly lower) than under previous arrangements.   For households with a mortgage, average reported income tax payments are estimated to be some £6 per week higher, while for all households the corresponding figure is around £2 per week, about 1.2% of reported average disposable income.

The actual value of social security benefits for each income range is not given in 1984, instead the percentage that it makes up in gross income is given.   Therefore, the calculation of `gross income less social security benefits' is likely to be slightly less accurate in 1984 than in previous years.

Averages of normal weekly disposable income classified by gross income range have been given in 1984.   In 1979 the information was given in terms of ranges of weekly disposable income categorised by ranges of gross income, therefore, the midpoint of each range was assumed as the average.   Thus the 1984 data on disposable income by decile is likely to be slightly more accurate than that for 1979.

     In 1979 the number of heads of households that are workers
in the occupational classification was equivalent to the number
of employees (including the employees out of a job) in the
employment status classification.   In 1984 this was no longer
the case as the two numbers differed slightly for most income
ranges.   I assume this occurs because of the change in
definition between the two years.   However, it does not affect
the results, as employment status is given as a percentage of
all heads of household in the income range (therefore summing
to 100) and occupational status is given as a percentage of all
those classified as worker;   employee (again summing to 100) as
in the previous years.

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APPENDIX 4
AVERAGE INCOMES FOR VARIOUS TYPES OF HOUSEHOLD

To facilitate comparisons between countries the average gross incomes for various types of household are given. These, in both current and real[82] prices, are as follows:

	1973		1979		1984	
	Current (£)	Real (£)	Current (£)	Real (£)	Current (£)	Real (£)
All households	49.40	71.18	120.45	72.65	197.37	75.62
Employee headed	58.25	83.92	149.96	90.45	259.03	99.25
Self-employed	61.60	88.76	137.74	83.08	243.15	93.16
Socio-economic class of head:						
Professional & technical	72.78	104.87	177.05	106.79	323.88	124.09
Administrative & managerial	87.11	125.52	192.77	116.27	346.88	132.90
Teacher	71.40	102.88	171.26	103.29	313.27	120.03
Clerical	53.02	76.40	129.50	78.11	227.82	87.29
Manual:	51.70	74.50				
Skilled	–	–	142.96	86.22	236.41	90.58
Semi-skilled	–	–	126.36	76.21	205.25	78.64
Unskilled	–	–	108.69	65.55	170.79	65.44
Pensioner households:						
Single person:						
all	14.92	21.50	36.41	21.96	62.00	23.75
state pension	–	–	27.70	16.71	40.26	15.43
other pension	–	–	48.66	29.35	87.43	33.50
Two person:						
all	28.41	40.94	65.57	39.55	120.62	46.21
state pension	–	–	43.12	26.01	71.84	27.52
other pension	–	–	82.16	49.55	150.00	57.47

[82]. Real prices are calculated by deflating by the General Index of Retail Prices given in Economic trends Annual Supplement 1985, for all items. The RPI has a base year of 1975 and is:-

1973	69.4
1975	100.0
1979	165.8
1984	261.0

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