GROWING INEQUALITIES AND THEIR IMPACTS IN PORTUGAL

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Country Report for Portugal

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Table of Contents

Executive Summary .................................................................................................................................................. 1

1. Introduction.......................................................................................................................................................... 5

2. The nature of inequality and its development over time .................................................................................. 9
   2.1 Has inequality grown? ................................................................................................................................... 9
       2.1.1 Household income inequality .................................................................................................................. 9
       2.1.2 Household expenditure inequality .......................................................................................................... 18
       2.1.3 Wealth and Debt Inequality .................................................................................................................... 21
       2.1.4 Labour market inequality ......................................................................................................................... 28
       2.1.5 Educational Inequality ........................................................................................................................... 31
   2.2 Interdependence between the above inequalities over time ........................................................................... 42
   2.3 The nature of inequality .................................................................................................................................. 43

3. The Social Impacts of inequality ...................................................................................................................... 45
   3.1 Introduction ..................................................................................................................................................... 45
   3.2 Material deprivation ........................................................................................................................................ 45
   3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion 48
   3.4 Indicators of social cohesion .......................................................................................................................... 52
   3.5 Family formation and breakdown, lone parenthood, fertility – including implications for gender inequalities .................................................................................................................................................................................. 54
   3.6 Health inequalities with objective and self-reported ..................................................................................... 57
   3.7 Housing tenure, esp. for lower-income households, and changes in the role of housing in the wealth distribution .......................................................................................................................................................................................... 63
   3.8 Crime and punishment: crimes related to property, crimes of violence (distinguishing homicide) and imprisonment rates ......................................................................................................................... 64
   3.9 Subjective measures of well-being, satisfaction, “happiness” .................................................................... 67
   3.10 Conclusions: Appraisal of the interdependence and the ‘national story’ of inequality drivers and their social impacts .................................................................................................................................................................. 71

4. Political and cultural impacts ............................................................................................................................ 73
   4.1 Political and civic participation ........................................................................................................................ 73
   4.2 Trust in others and in institutions ...................................................................................................................... 74
   4.3 Political values and legitimacy ........................................................................................................................ 77
   4.4 Values about social policy and welfare state .................................................................................................. 77
   4.5 Conclusions: Appraisal of the interdependence and the ‘national story’ of inequality drivers and their cultural and political impacts .................................................................................................................................................................. 81

5. Effectiveness of policies in combating inequality ............................................................................................ 83
GINI Country Report Portugal

5.1 Introduction .......................................................................................................................... 83
5.2 Labour income (levels/trends, policies and policy intentions/discourse) .......................... 83
5.3 Taxation (levels/trends, policies and policy intentions/discourse) .................................... 86
5.4 Social expenditures (levels/trends, policies and policy intentions/discourse) .................. 88
5.5 Education (levels/trends, policies and policy intentions/discourse) ................................. 90
5.6 Conclusions: Appraisal of the ‘national story’ of policies affecting inequality, intended or unintended ........................................................................................................ 93

Reference list .............................................................................................................................. 95
List of Tables

Table 2.1 Inequality indices, Portugal, 1989–2009................................................................. 11
Table 2.2 Changes in Inequality, Portugal, 1989–2009............................................................ 14
Table 2.3 Trends in real household income by income group, Portugal, 1989–2009. ................. 15
Table 2.4 Income shares of household income by income group, Portugal, 1989–2009.................. 15
Table 2.5 Inequality indices, Portugal, 1989–2009................................................................. 20
Table 2.6 Changes in Inequality, Portugal, 1989–2009............................................................ 21
Table 2.7 Private Household Net Wealth, Portugal, 2010.......................................................... 24
Table 2.8 Non-financial assets by type (%), Portugal, 2010....................................................... 25
Table 2.9 Proportion of non-financial asset ownership by type (%), Portugal, 2010..................... 25
Table 2.10 Financial assets by type (%), Portugal, 2010............................................................ 26
Table 2.11 Debt value by type (%), Portugal, 2010................................................................. 27
Table 2.12 Ratio debt repayments/monthly monetary income, Portugal, 2010............................ 28
Table 2.13 Earnings Inequality indices, Portugal, 1985–2009. .................................................... 29
Table 2.14 Wealthiest earnings shares, Portugal, 1985–2009. .................................................. 31
Table 3.1 Monetary Poverty versus Material Deprivation (%), Portugal, 2008.............................. 49
Table 3.2 Frequency of meeting or contacting friends and relatives, Portugal, 2006...................... 52
Table 3.3 Household Composition, Portugal, 1997–2010. ....................................................... 54
Table 3.4 Housing costs, Portugal, 2004–2011........................................................................... 63
Table 3.5 Trends in Inequality and select indicators of social impact, Portugal, 1990–2010.......... 72
Table 4.1 General views about poverty and inequality, Portugal and EU 27, 2010......................... 78
Table 5.1 Simulated Impact of CSI and RSI on Inequality, Portugal, 2007................................. 90

List of Figures

Figure 1.1 GDP per capita at constant prices (base=2000), Portugal, 1970–2011. ...................... 6
Figure 1.2 GDP per capita relative to EU15 and to EU, Portugal, 1970–2012. ............................. 6
GINI Country Report Portugal

Figure 1.3 Unemployment Rate, Portugal, 1980–2011 ................................................................. 6
Figure 2.1 Mean equivalent disposable income, Portugal, 1989–2009 ........................................... 10
Figure 2.2 Gini Coefficient (Monetary versus Total Income), Portugal, 1989–2009 ....................... 11
Figure 2.3 Inequality Indices for Equivalent Total Income, Portugal, 1989–2009 ......................... 12
Figure 2.4 Inequality Indices for Equivalent Monetary Income, Portugal, 1989–2009 ...................... 12
Figure 2.5 Inequality Indices for Equivalent Disposable Income, Portugal, 1994–2009 .................... 13
Figure 2.6 Poverty Rate (Monetary versus Total Income), Portugal, 1989–2009 ......................... 16
Figure 2.7 Poverty Indicators, Portugal, 1993–2009 ................................................................. 17
Figure 2.8 Poverty Rate by age, Portugal, 1993–2009 ................................................................. 17
Figure 2.9 Poverty Rate by education (18-64 yrs), Portugal, 1993–2009 ........................................ 18
Figure 2.10 Mean equivalent expenditure, Portugal, 1990–2010 ................................................. 19
Figure 2.11 Gini Coefficient for Equivalent Expenditure (Monetary versus Total Expenditure), Portugal, 1990–2010 ................................................................. 19
Figure 2.12 Household Savings, Portugal, 1980–2011 .............................................................. 22
Figure 2.13 Household Savings, Portugal, 1980–2011 .............................................................. 23
Figure 2.14 Financial assets by (main) type as % of total financial assets, Portugal, 1980–2011 ...... 23
Figure 2.15 Earnings Inequality indices, Portugal, 1985–2009 .................................................... 29
Figure 2.16 Monthly earnings shares per deciles of average earnings, Portugal, 1985–2009 .......... 30
Figure 2.17 Earnings Inequality indices (II), Portugal, 1985–2009 ............................................ 30
Figure 2.18 Pupils and students enroled as % of resident population by level of education, Portugal, 1970–2010 ................................................................. 33
Figure 2.19 (Gross) Enrolment rate, Portugal, 1980–2010 ......................................................... 33
Figure 2.20 Number of pupils enroled by age group and level of education, Portugal, 2000–2010 .. 34
Figure 2.21 Education Attainment 25-64 year olds, Portugal, 1998–2010 ..................................... 34
Figure 2.22 Proportion 15-29 year olds by work status, Portugal, 1997–2010 ............................. 35
Figure 2.23 Labour force participation rate by highest level of education attained, Portugal, 1998–2010. ................................................................. 36
Figure 2.24 Average employed population by age group and education attainment (ISCED2, 3+4 and 5+6), Portugal, 1998–2010 .......................................................... 36

Figure 2.25 Average employed population by age group and education attainment (none, ISCED1A and 1B), Portugal, 1998–2010 .......................................................... 37

Figure 2.26 Unemployment Rate by highest level of education attained, Portugal, 1998–2010 ...... 37

Figure 2.27 Adult enrolment in return to education initiatives, Portugal, 2001–2010. ................. 39

Figure 2.28 Non-regular youth enrolment, Portugal, 2000–2010 .............................................. 40

Figure 2.29 Distribution of households according to education level of the head of household, Portugal, 1993–2009 ................................................................................. 41

Figure 2.30 Relative Mean Income and inequality (MLD) according to education level of the head of household, Portugal, 1993–2009 ................................................................................. 41

Figure 2.31 Changes in inequality (Gini Index), Portugal, 1985–2009 ........................................ 42

Figure 3.1 Material Deprivation Rate by age, Portugal, 2004–2010 ............................................ 46

Figure 3.2 Severe material Deprivation Rate by age, Portugal, 2004–2010 .............................. 46

Figure 3.3 Severe material deprivation rate by education level (population aged 18 and over), Portugal, 2004–2010 ............................................................................... 47

Figure 3.4 Severe material deprivation rate by education level (population aged 18-64 yrs), Portugal, 2004–2010 ............................................................................... 47

Figure 3.5 Severe material deprivation rate by income quintile, Portugal, 2004–2010 .......... 48

Figure 3.6 Material deprivation among households at risk of poverty, Portugal, 2004–2010 .... 49

Figure 3.7 Consistent Poverty, Portugal, 2004–2010 ................................................................. 50

Figure 3.8 People at risk of poverty or social exclusion, Portugal, 2004–2010 ...................... 50

Figure 3.9 People at risk of poverty or social exclusion by age group, Portugal, 2004–2010 .... 51

Figure 3.10 People at risk of poverty or social exclusion by education (population aged 18 and over), Portugal, 2004–2010 ................................................................. 51

Figure 3.11 Frequency of meeting or contacting friends and relatives (at risk of poverty or not at risk), Portugal, 2006 ................................................................. 52

Figure 3.12 Participation in voluntary activities by selected groups, Portugal, 2006 ............... 53

Figure 3.13 Marriage and divorce, Portugal, 1980–2010 .......................................................... 54
Figure 3.14 Birth rate and average age of mother, Portugal, 1980–2010. ................................. 55

Figure 3.15 Fertility rates by mother’s age group and average age of mother at birth of 1st child, Portugal, 1980–2010. ........................................................................................................... 56

Figure 3.16 Percentage of newborn babies born to unmarried parents, Portugal, 1980–2010...... 56

Figure 3.17 Mortality rate, Infant Mortality rate and Life Expectancy at birth, Portugal, 1980– 2010. ................................................................................................................................. 57

Figure 3.18 Deaths by main causes, per 100,000 inhabitants, Portugal, 1980–2010.................... 58

Figure 3.19 Self-reported health status by gender, Portugal (mainland), 1998–2006. .................. 58

Figure 3.20 Self-reported health status by gender and age group, Portugal, 2005/06. ......... 59

Figure 3.21 BMI by gender, Portugal (mainland), 1998–2006....................................................... 60

Figure 3.22 BMI by gender and age group, Portugal, 2005/06................................................... 60

Figure 3.23 Proportion of population by self-reported diseases by gender and age group, Portugal (mainland), 2005/06. ............................................................................................................ 61

Figure 3.24 Potential psychological problems (MHI-5≤52) by gender and age group, as % of total population, Portugal, 2005/2006................................................................. 62

Figure 3.25 Potential psychological problems (MHI-5≤52) by gender, age group, and working condition, Portugal, 2005/2006. ................................................................. 62

Figure 3.26 Proportion main and 2nd home and proportion of owned or rented main home, Portugal, 1981–2011. ........................................................................................................ 63

Figure 3.27 Criminal offences per 1000 population, Portugal, 1998–2011................................. 64

Figure 3.28 Homicides per 1,000 population, Portugal, 1998–2011......................................... 65

Figure 3.29 Convicted Prison Population per 1,000 population by type of crime, Portugal, 1993– 2010. ................................................................................................................................. 65

Figure 3.30 Convicted Prison Population by attained level of education, Portugal, 1998–2010. ...... 66

Figure 3.31 Convicted Prison Population by age group, Portugal, 1998–2010. ..................... 67

Figure 3.32 Eurobarometer - Are you... with the life you lead?, Portugal, 1985–2011................. 68

Figure 3.33 Are you... with the life you lead? Portugal (above) and EU average (below), 1985– 2001. ................................................................................................................................. 69
Figure 3.34 What are your expectations for the year to come... about your life in general, Portugal, 1995–2012. ........................................................................................................... 70

Figure 3.35 What do you think are the two most important issues facing our country at the moment? (choose two), Portugal, 2003–2012. .................................................................................. 70

Figure 3.36 Would you say the situation of the national economy is better or less good than the average of the EU countries?, Portugal, 2005–2012.............................................................. 71

Figure 4.1 Abstention rate in General Elections, Portugal, 1975–2011.......................................................... 73

Figure 4.2 National Parliament, Portugal, 2003–2012................................................................................. 74

Figure 4.3 National Government, Portugal, 2003–2012............................................................................. 74

Figure 4.4 Political parties, Portugal, 2003–2012 ....................................................................................... 75

Figure 4.5 Justice / Legal System, Portugal, 2003–2012.............................................................. 75

Figure 4.6 Police, Portugal, 2003–2012 ............................................................................................... 76

Figure 4.7 Do you think your country’s membership of the EU is...?, Portugal, 1986–2012 ............... 77

Figure 4.8 Social Climate Index – Eurobarometer, Portugal, 2009–2012.................................................. 80

Figure 5.1 Nominal Minimum Wage, Portugal, 1974–2011 ............................................................ 84

Figure 5.2 Real Minimum Wage, Portugal, 1974–2011 ........................................................................ 84

Figure 5.3 Rate of variation of Real Minimum Wage, Portugal, 1975–2011 ............................................. 84

Figure 5.4 Minimum relative to average wages of full-time workers, Portugal, 1975–2010 .............. 85

Figure 5.5 Collective Agreements, Portugal, 1985–2009 ........................................................................ 85

Figure 5.6 Tax Revenue as percentage of GDP, Portugal, 1960–2010................................................. 86

Figure 5.7 Tax Revenue as percentage of GDP, Portugal and OECD, 1980–2007.............................. 86

Figure 5.8 Tax Revenue by origin as percentage of GDP, Portugal, 1965–2009................................. 87

Figure 5.9 Progressivity Efect of the tax system, Portugal, 2009.......................................................... 88

Figure 5.10 Social Security Expenditure and Pensions (Cash) as percentage of GDP, Portugal, 1970–2010. ................................................................................................................. 88

Figure 5.11 Public Expenditure by type as percentage of GDP, Portugal, 1980–2007...................... 89

Figure 5.12 Public Expenditure by transfers/cash as percentage of GDP, Portugal, 1980–2007........ 89
GINI Country Report Portugal

Figure 5.13 Public expenditure in Education, Health and Social Security as % GDP, Portugal 1972–2010. ............................................. 91

Figure 5.14 Expenditure on educational institutions as % GDP, Portugal, 1998–2008. ................. 92

Figure 5.15 Expenditure on educational institutions as % GDP by level of education, Portugal, 1998–2008. ................................................................. 92

Figure 5.16 Tertiary education students with grants by institution type as a % of total enrolment, Portugal, 1991–2011. ...................................................... 93
Executive Summary

The aim of the GiNI project is to analyse the changes in income, wealth and education inequality which have occurred in recent decades and their social, political and cultural impact. The country report for Portugal presents and discusses the main modifications in income distribution, highlighting the changes in its inequality and their main driving factors. The social, political and cultural potential impact of these changes on the Portuguese society is identified using the available data, as well as the role of the institutions and policies that influence and restrict the produced alterations.

The nature of inequality

Crossing the information provided by both household and wage inequality enables the clear identification of time sub-periods where the behaviour of the different distributions indicates a consistent pattern of the evolution of inequality in Portugal.

Firstly, in the period between the mid-eighties and 1994 there was a steep increase in inequality, whichever distribution is chosen. It should be remembered this is the period of strong growth and economic integration after Portugal became a member of the EU.

The second half of the noughties until 2009 was another period when the behaviour of inequality is undisputed, with a significant reduction in the Gini coefficient across the distributions. However, the magnitude of this reduction was not sufficient to compensate for the increase in inequality that had occurred in the intervening period and therefore to restore the Gini to the values of the early nineties.

It is in this intervening period, 1994/2005, that identifying the pattern of variation in inequality becomes more problematic. Whereas HBS household monetary income inequality data points to a significant rise in inequality (about two percentage points in the Gini coefficient), total income from the same data source points to a certain stability or even small decrease. This reduction in inequality is backed by the analysis of the income distribution using the ECHP and EU-SILC data, as discussed throughout the report.

The evolution of wage inequality in this 1994/2005 period also suggests a relative stability, particularly when compared with the strong rise in inequality in the previous period. Thus, there is a small reduction in the Gini coefficient in the latter part of the nineties, followed by an increase between 1999 and 2005.
Another important aspect to be taken into account in this analysis of inequality in Portugal in the 1989/2009 period is that it occurs during a period of real growth of the equivalised income of all economic groups. Except in 1989/94, the real rate of growth of the first two deciles of the distribution was at a higher rate than that of average income, thus its share of the total income was not reduced. The implementation of a number of means-tested policies aimed at the more vulnerable sectors of the population which started in the second half of the nineties had a prominent role in this achievement. This explains how within a context of increased inequality the poverty indicators were significantly reduced after 1994.

The rise in wage inequality is clearly connected to the substantial rise in the earnings of the higher wage distribution deciles.

Finally, the role of education attainment and qualification levels is fundamental in the analysis of inequality in Portugal. The recent marked improvement of education attainment and qualification levels of the Portuguese population should have an important attenuating role on future inequality.

The Social Impacts of inequality

This report does not completely validate Wilkinson and Pickett (2009) proposition that an increase in inequality has a negative impact on different social indicators, as there is no clear indication of a direct relationship between the evolution of inequality and the portfolio of indicators used to ascertain the social situation of the Portuguese population. Two facts make it particularly difficult to establish a causal relationship between inequality and the social indicators throughout this period in Portugal: one is that the inequality levels remained particularly high compared to the rest of the EU countries; the other is that the equivalised real disposable income increased for all economics groups, though at different rates.

Political and cultural impacts

One of the most significant finds of this report is the loss of trust in the national government and in the political system in general as a result of the economic crisis. This loss of trust in the main decision makers co-exists with a significant decline in the positive valuation of the advantages of EU membership, though the majority view is still positive. The relationship between the political and cultural impacts and inequality does not come through in a direct form, but is obviously behind the attitudes and perceptions of the Portuguese population. After decades when Portugal has consistently been one of the most unequal EU countries, the trust in public institutions is seriously
dented, as revealed by the high levels of electoral abstention and the lack of trust in most public institutions. Furthermore, the current social and economic crisis, leading to a sharp increase in inequality and drop in income and living standards of the poorest population but spreading into large sectors of the middle classes, may lead to a profound change in the attitudes and perceptions of the Portuguese, as some of the results above already suggest.

Effectiveness of policies in combating inequality

Finally, the depreciation of the minimum wage relatively to the average wage has certainly contributed to the rise, since 1985, in wage inequality: the results show that in 1985 the minimum wage corresponded to 104% of the low wage threshold and that this proportion decreased steadily to about 90% in 2009.

The rise in social expenditure in the last two decades in Portugal has undoubtedly had an impact on the income distribution and inequality levels. The implementation of social policy measures designed to fight poverty and social exclusion impacted on the resources and income of the poorest households, and significantly improved their living standards. In the absence of an effective policy to fight inequality, the gap has been filled by the equalizing effect of policies designed to fight poverty; they were never designed to address inequality and thus the results have to be limited.

As the current economic and social crisis deepens, all social policies are losing ground, through both increased difficulty in access and lower benefits awarded. The substantial recent effort to increase the average level of educational qualifications of the population has also been reversed as a result of the implementation of the budget cuts. The joint impact of all these measures will inevitably result in higher inequality and, above all, increased poverty.
Introduction

The aim of the GiNI project is to analyse the changes in income, wealth and education inequality which have occurred in recent decades and their social, political and cultural impact. The country report for Portugal presents and discusses the main modifications in income distribution, highlighting the changes in its inequality and their main driving factors. The social, political and cultural potential impact of these changes on the Portuguese society is identified using the available data, as well as the role of the institutions and policies that influence and restrict these alterations.

Ever since Portugal became a member of the European Union in 1986, the Portuguese economy has gone through substantial changes that have altered significantly its mechanisms and incentives to the economic agents. Firstly, there was a strong increase in the degree of economic integration of the Portuguese economy reflecting both its insertion in the community area and the intensification of the globalisation process. Then, from the early nineties, the process of joining the euro required a profound financial integration of the Portuguese economy.

An important set of features of the economy developed during this period, a period characterised by increased global competition, increased external financing capacity due to the removal of the foreign exchange risk, and structurally lowers interest and inflation rates.

Between 1986 and 2010, Portuguese real per capita GDP increased significantly from less than €9,000 to more than €15,000 (2000 prices), as shown in Figure 1.1. Between 1986 and the end of the nineties, Portugal went through a significant convergence process with the EU average: per capita GDP increased from about 34% to 55% of that average at the beginning of the 21st century. Between 2000 and 2009, this convergence process slowed considerably and was reversed in 2010 reflecting the current economic crisis (Figure 1.2).

The share of the service sector in the economy, both in terms of employment and output, increased significantly. The degree of openness of the economy, measured by the share of exports and imports in GDP, also rose. The unemployment rate remained relatively unchanged until the beginning of the noughties, then progressively increased and crossed the 10% barrier in 2009, displaying a much stronger upwards tendency ever since, as shown in Figure 1.3.
GINI Country Report *Portugal*

**Figure 0.1** GDP per capita at constant prices (base=2000), Portugal, 1970–2011.

Source: INE Statistics Portugal and Banco de Portugal.

**Figure 0.2** GDP per capita relative to EU15 and to EU, Portugal, 1970–2012.

Source: AMECO.

**Figure 0.3** Unemployment Rate, Portugal, 1980–2011.

Source: AMECO.
Private sector indebtedness grew at a rapid pace since the nineties, leading to a significant increase in the deficit of the balance of current payments and capital movements. The budget deficit remained at a significantly high level throughout the period.

The weak performance of the Portuguese economy during the noughties was characterised by feeble economic growth, strong increase in the unemployment rate, increased indebtedness, and a drop in domestic savings. Simultaneously, the state of the Portuguese public finances suffered a sharp deterioration. All those factors led to a major decline in the potential to attract international investment and to a rise in the interest rate spreads of the Portuguese public debt. The situation of the Portuguese economy at a time of turmoil in the international financial markets, particularly in the euro zone, dramatically reduced the possibility of financing public debt in those markets. Eventually, Portugal had to ask for EU and IMF financial support and subscribe to a program of economic and financial adjustment. It is not yet possible to evaluate and quantify the impact of the current economic crisis and the policies implemented within the agreement with the Troika on inequality in Portugal. Nevertheless, what has already been implemented and has been announced suggests a rise in economic inequality and a reversion of the process of decrease in inequality that had been observed in recent years.
The nature of inequality and its development over time

The main changes in economic inequality during the recent decades will be analysed using statistical data from different sources, namely:

i) The most recent five Portuguese Household Budget Surveys covering the 1990/2011 period. This dataset is particularly relevant because it contains information on both monetary and total (monetary and non-monetary) household income;

ii) The ECHP/EU-SILC surveys that allow for the analysis of inequality on an annual basis between 1994 and 2009;

iii) The “Quadros de Pessoal”, an administrative source of data on employees and companies, which has detailed information on wages and earnings of all Portuguese employees except public servants.

Rodrigues et al. (2012) use all data above to characterize the Portuguese income distribution in recent years in great detail, an approach that will also be followed in parts of this country report. Data from the recently published Household Financial Situation Survey of 2010 will be used to analyse the main characteristics of wealth distribution in Portugal, but no earlier comparable data exists.

2.1 Has inequality grown?

2.1.1 Household income inequality

The main statistical data source used to analyse household inequality are the Household Budget Surveys (HBS) carried out by INE Statistics Portugal every five years\(^2\). These surveys provide the most representative sample of household income in Portugal, allowing for a detailed analysis of both monetary and non-monetary income of the Portuguese households. They also enable the comparison with the results of other Portuguese and European studies about inequality, like Pereirinha (1988), Rodrigues (2007), and OECD (2011). The need for more frequent (annual)

\(^1\) The Household Financial Situation Survey is part of the European project Household Finance and Consumption Survey, which aims to characterise in detail the households’ finances in a comparable way across euro area countries.

indicators of inequality and poverty and higher international data harmonization has lead in recent years to the increased usage of household panel data from the EU wide ECHP e EU-SILC surveys. Data from these surveys, using smaller samples and a definition of disposable income slightly different from that of HBS, will be used here to complement the analysis of the evolution of the main inequality indicators.

However, the results of this study using ECHP/EU-SILC data differ slightly from those published by Eurostat because of the use of different versions of the OECD equivalence scales. Whereas Eurostat uses the modified OECD scale, in this study it is the OECD square root of the number of persons in the household scale that is used.

Figure 0.1 Mean equivalent disposable income, Portugal, 1989–2009.

Source: INE Statistics Portugal, Household Budget Surveys.
Note: Income refers to disposable household monetary income, corrected for household size and deflated by the consumer price index (CPI)

Figure 2.1 above shows both monetary and total (monetary and non-monetary) disposable income by equivalised adult for the period 1989/2009. Monetary equivalised disposable income increased by about 72% in real terms between 1989 and 2009, whereas total income increased by about 76%. This growth was not homogeneous over the two decades: in the 1990s, the monetary equivalised income increased by about 4.6% per year while during the noughties this rate was reduced to about 1%.

The Gini coefficient is reported in Figure 2.2 for the monetary and total income distributions between 1989 and 2009. A first clear result is that the monetary income distribution reveals inequality levels 1 to 3 percentage points above that of the total income, a result already established in Rodrigues (2007, 2012): non-monetary income has an equalising effect in Portugal.
A second result relates to the diverse evolution of the Gini coefficient of each distribution. Between 1989 and 1994, both identified a substantial increase in inequality, with the Gini rising by about three percentage points. However, between 1994 and 2005, while the Gini coefficient of the monetary income distribution continued to record an increase in inequality, that of total income remained initially largely unchanged and recorded a decrease in inequality until 2005. In the last period (2005/09) both Gini coefficients recorded a decrease in inequality.
The analysis can be taken further by reporting a wider set of inequality indicators in the next table and figures.
The equalising effect of non-monetary income is confirmed by all inequality indices given in Table 0.1. They also confirm that the decrease in inequality in recent years was not sufficient to compensate for its substantial increase in the initial 1989-94 period. Finally, from the evolution of the different inequality indices it becomes apparent that inequality decreased in periods when the living standards of the lower income households improved. Figure 2.5 compares the inequality indicators results above (Figure 2.4: HBS data) with those obtained using ECHP/EU-SILC data for the period 1993/2009, but highlighting the years common to both datasets. There is a clear difference in the period 1994/99 with the ECHP data recording a decline in inequality and the HBS data an increase.

**Figure 0.5 Inequality Indices for Equivalent Disposable Income, Portugal, 1994–2009.**

Table 2.2 summarises the main results and together with the different inequality indicators reveals a rise in inequality between 1989 and 2009, whichever distribution is chosen. Two periods can be identified when all indicators move in the same direction: one, 1989/94, is characterised by a strong increase in inequality; the other, 2004/09, when there is a consistent decrease in inequality. The evolution of inequality in the 1994/2004 period is more difficult to interpret, with contradictory evidence from the different datasets and income concepts used. However, there is a suggestion of constancy in the inequality indicators in the second half of the nineties followed by a rise in inequality in the first half of the noughties.
Table 0.2 Changes in Inequality, Portugal, 1989–2009.

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Analysing the evolution of the distribution of monetary equivalised income at different moments of its distribution allows for a clearer interpretation of the changes that have occurred and the identification of their ‘winners’ and ‘losers’. Table 2.3 reports the annual growth rates of the equivalised income for each decile of the distribution, as well as those of the 5% highest and lowest incomes.

A first finding is that throughout this period all income groups recorded an improvement in their real income: between 1989 and 2009, the equivalised disposable income grew at an annual average rate of 2.8%. As discussed earlier, this growth was not homogeneous: it was much stronger in the nineties and rather weak in the noughties, and neither was it homogeneous across the income groups. The period of highest inequality increase (1989/94) is characterised by strong gains in the highest 10% decile, which is the only that has an annual rate of growth above the average rate (7.3% versus 5.3%). This discrepancy is even higher if only the highest 5% incomes are considered (8.2%). The first eight deciles show rates of growth that are both below the average and inversely proportional to their rank in the income scale. The rate of growth of the 1st decile corresponds to only about 2/3 of the average rate. It is evident that the inequality increase in the 1989/94 period is connected to the stronger growth in the highest incomes.

While the 1989/94 period is characterised by an increase in inequality and stronger income growth of the wealthiest households and individuals, the final period (2004/09) is characterised by a decrease in inequality and stronger growth in the income of the bottom of the distribution. The first decile records an annual rate of growth of 2.6% compared to the average of 1%, and the 5% poorest of 3.2%. This remarkable achievement is intrinsically associated with the development and implementation of social protection policies, such as the “Social Integration Income” (RSI) and the “Solidarity Supplement for the Elderly” (CSI). The period 1994/99, already identified as that when the evolution of inequality is more difficult to characterise, corresponds to a more accentuated income growth in the extreme deciles of the distribution, with the highest rates of growth recorded for both the 5% wealthiest and poorest. These opposite movements might explain the divergent results obtained above for the inequality indicators using different data sources and slightly different
definitions. Finally, the 1999/2005 period is characterised again by stronger growth of the highest incomes and subsequent increase in inequality.

Table 0.3 Trends in real household income by income group, Portugal, 1989–2009.

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<tr>
<td>Bottom 5%</td>
<td>3.6</td>
<td>4.4</td>
<td>0.7</td>
<td>3.2</td>
<td>2.8</td>
</tr>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; Decile</td>
<td>3.7</td>
<td>4.0</td>
<td>1.2</td>
<td>2.6</td>
<td>2.8</td>
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<tr>
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<td>3.7</td>
<td>1.5</td>
<td>1.6</td>
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<tr>
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<td>3.5</td>
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</tr>
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<td>3.5</td>
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<td>1.2</td>
<td>2.3</td>
</tr>
<tr>
<td>6&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>4.3</td>
<td>3.5</td>
<td>0.3</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; Decile</td>
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<td>3.3</td>
<td>0.6</td>
<td>1.4</td>
<td>2.4</td>
</tr>
<tr>
<td>8&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>4.9</td>
<td>3.4</td>
<td>0.8</td>
<td>1.1</td>
<td>2.5</td>
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<td>9&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>5.3</td>
<td>4.0</td>
<td>0.9</td>
<td>1.0</td>
<td>2.8</td>
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<td>4.5</td>
<td>1.5</td>
<td>0.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Top 5%</td>
<td>8.2</td>
<td>4.6</td>
<td>1.7</td>
<td>-0.1</td>
<td>3.6</td>
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<tr>
<td>All</td>
<td>5.3</td>
<td>3.9</td>
<td>1.0</td>
<td>1.0</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: INE Statistics Portugal, Household Budget Surveys.
Note: Income refers to disposable household monetary income, corrected for household size and deflated by the consumer price index (CPI).

Table 0.4 Income shares of household income by income group, Portugal, 1989–2009.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 5%</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; Decile</td>
<td>2.8</td>
<td>2.6</td>
<td>2.6</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; Decile</td>
<td>4.4</td>
<td>4.1</td>
<td>4.0</td>
<td>4.2</td>
<td>4.3</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; Decile</td>
<td>5.6</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>6.7</td>
<td>6.4</td>
<td>6.3</td>
<td>6.2</td>
<td>6.3</td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>7.9</td>
<td>7.6</td>
<td>7.4</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>6&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>9.1</td>
<td>8.8</td>
<td>8.6</td>
<td>8.3</td>
<td>8.4</td>
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<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; Decile</td>
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<td>10.2</td>
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<td>9.9</td>
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<tr>
<td>8&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>12.4</td>
<td>12.1</td>
<td>11.8</td>
<td>11.7</td>
<td>11.8</td>
</tr>
<tr>
<td>9&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>15.3</td>
<td>15.3</td>
<td>15.5</td>
<td>15.4</td>
<td>15.4</td>
</tr>
<tr>
<td>10&lt;sup&gt;th&lt;/sup&gt; Decile</td>
<td>25.1</td>
<td>27.7</td>
<td>28.6</td>
<td>29.5</td>
<td>28.8</td>
</tr>
<tr>
<td>Top 5%</td>
<td>15.2</td>
<td>17.5</td>
<td>18.2</td>
<td>18.9</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Source: INE Statistics Portugal, Household Budget Surveys.
Note: Income refers to disposable household monetary income, corrected for household size.

This varied increase in the equivalised real income of the different income groups has to be reflected in the income shares of the deciles which are reported in Table 2.4. The most remarkable result in this table is the increase in the income share of the 10<sup>th</sup> decile from 25.1% in 1989 to 28.8% in 2009. However, most of this increase happened between 1989 and 1994, with an increase of more than 2.5 percentage points. During the 2004/09 period, there was even a reduction in that share from 29.5% to 28.8%.
Between 1994 and 2009, there was a slight but sustained increase in the income shares of the households with lower incomes. This increase will be related to the implementation of means-tested social policies to fight poverty and social exclusion in the second half of the noughties.

**Poverty Indicators**

The most recent studies of monetary poverty in Portugal have followed the Eurostat methodology which has as benchmark a poverty line defined as 60% of the equivalised median income using the OECD modified equivalence scale and estimated using the ECHP/EU-SILC data. This will also be the methodology used in the current study. However, to ensure compatibility with the analysis of the income distribution above, the main poverty indicators will also be calculated using the HBS data and the OECD scale. Unlike the inequality indicators, the poverty indicators have a similar evolution in both cases, and thus using either of them does not influence the results.

Figure 2.6 shows the poverty rate for the period 1989-2009 calculated using the HSB data and the OECD scale and the Eurostat poverty line.

**Figure 2.6 Poverty Rate (Monetary versus Total Income), Portugal, 1989–2009.**

![Graph showing poverty rate from 1989 to 2009](image)

Source: INE Statistics Portugal, Household Budget Surveys.
Notes: Incomes are equilavelised using the OECD square root of the number of persons in the household scale.

The comparison between monetary and total (monetary and non-monetary) income confirms the importance of the non-monetary resources of the households in limiting the poverty risk, together with the equalizing effect in the income distribution identified above. Figure 2.6 also emphasises the
initial increase of the poverty rate in 1989/94 which coincided with the inequality increase already discussed, followed by a clear decrease between 1994 and 2009.

This decrease in the second half of the 1990s is equally clear in Figure 2.7 where the poverty indicators were calculated using the ECHP/EU-SILC data and Eurostat methodology.

**Figure 0.7 Poverty Indicators, Portugal, 1993–2009.**

![Poverty Indicators, Portugal, 1993–2009.](image)

Source: Eurostat (ECHP/EU-SILC), and Rodrigues et al. (2012).

**Figure 0.8 Poverty Rate by age, Portugal, 1993–2009.**

![Poverty Rate by age, Portugal, 1993–2009.](image)

Source: Eurostat (ECHP/EU-SILC), and Rodrigues et al. (2012).

Figure 2.7 reports a decrease in the poverty rate from 22.5% to 17.9% between 1994 and 2010, a poverty gap that almost halved from 8.8% to 4.9% and a Foster et al. (a=2) index that more than halved from 5.0% to 2.1% over the period. These results were largely influenced by the social policy
measures targeted at the most vulnerable that were implemented during this period, the CSI and RSI. Particularly revealing is the evolution of the elderly poverty rate that decreased from about 40% in 1994 to 21.0% in 2010, as shown in Figure 2.8. However the children’s poverty rate showed no comparable reduction, though it started from a much lower value, 23.4%, to 20.9%.

Figure 2.9 shows the relation between the attained level of education and the risk of poverty: the highest level of education the lower risk of poverty faced. However, the risk has kept fairly constant over the available shorter period (2004-10), unlike the reduction recorded in Figure 0.8 for the same period when the risk of poverty was analysed per different age groups.

Figure 0.9 Poverty Rate by education (18-64 yrs), Portugal, 1993–2009.

Source: Eurostat (ECHP/EU-SILC), and Rodrigues et al. (2012).

2.1.2 Household expenditure inequality

The evolution of household expenditure inequality will be studied in this section and compared with that of income inequality using HBS data. As part of the HBS surveys, households are simultaneously enquired about both their expenditure and their disposable income, but the reference periods of each are different: expenditure refers to the current survey year, whereas income refers to the previous year. Therefore, expenditure and income are not directly comparable in each survey, though they are comparable through time.3

Figure 2.10 shows the evolution of real total and monetary expenditure between 1990 and 2010

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3 It should be noted that the transformation of expenditure and income data into values in (different) base year prices using the CPI (2010 and 2009 prices, respectively) will be necessarily affected by the diverse behaviour of inflation throughout the period.
expressed in 2010 prices. The pattern is similar to that of disposable income (see Figure 2.1), but with a marginally lower rate of growth. Between 1990 and 2010, total expenditure grew 65% in real terms and monetary expenditure 55%. As with income, this growth was stronger during the nineties: the annual rate of growth of monetary expenditure was about 3.5% in the 1990/2000 period and dropped to about 1% in the noughties. However, between 2000 and 2005, real monetary expenditure suffered a small decrease, which had no correspondence in income in the same period.

Figure 0.10 Mean equivalised expenditure, Portugal, 1990–2010.

Source: INE Statistics Portugal, Household Budget Surveys.
Notes: Expenditure in Euros in 2009 prices. Expenditures are equivalised using the OECD square root of the number of persons in the household scale.

Figure 0.11 Gini Coefficient for Equivalent Expenditure (Monetary versus Total Expenditure), Portugal, 1990–2010.

Source: INE Statistics Portugal, Household Budget Surveys.
Notes: Expenditures are equivalised using the OECD square root of the number of persons in the household scale.

Figure 2.11 shows the equalising effect of non-monetary expenditure: the Gini coefficient of total expenditure is 2 to 4 percentage points lower than that of monetary expenditure. As already discussed about income, the first half of the 1990s corresponded to a period when expenditure inequality increased. Between 1995 and 2006 there was a marked decrease, both in total expenditure (minus 6 percentage points) and monetary (minus 4.7). This was very different from what happened with income over the same period, when the Gini coefficient actually increased.

Table 0.5 Inequality indices, Portugal, 1989–2009.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini Index</td>
<td>0.367</td>
<td>0.386</td>
<td>0.360</td>
<td>0.326</td>
<td>0.327</td>
</tr>
<tr>
<td>MLD</td>
<td>0.231</td>
<td>0.259</td>
<td>0.221</td>
<td>0.179</td>
<td>0.179</td>
</tr>
<tr>
<td>S80/S20</td>
<td>6.8</td>
<td>7.7</td>
<td>6.6</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>S90/S10</td>
<td>11.3</td>
<td>13.1</td>
<td>10.9</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>S95/S05</td>
<td>18.2</td>
<td>21.0</td>
<td>16.8</td>
<td>12.7</td>
<td>12.2</td>
</tr>
<tr>
<td>P90/P10</td>
<td>5.6</td>
<td>6.4</td>
<td>5.5</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>P95/P05</td>
<td>9.6</td>
<td>10.7</td>
<td>9.4</td>
<td>7.2</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Monetary Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini Index</td>
<td>0.394</td>
<td>0.411</td>
<td>0.385</td>
<td>0.364</td>
<td>0.366</td>
</tr>
<tr>
<td>MLD</td>
<td>0.277</td>
<td>0.304</td>
<td>0.258</td>
<td>0.231</td>
<td>0.232</td>
</tr>
<tr>
<td>S80/S20</td>
<td>8.2</td>
<td>9.2</td>
<td>7.6</td>
<td>6.7</td>
<td>6.9</td>
</tr>
<tr>
<td>S90/S10</td>
<td>14.8</td>
<td>16.7</td>
<td>13.2</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>S95/S05</td>
<td>25.2</td>
<td>29.5</td>
<td>21.2</td>
<td>19.1</td>
<td>17.9</td>
</tr>
<tr>
<td>P90/P10</td>
<td>6.7</td>
<td>7.4</td>
<td>6.4</td>
<td>5.5</td>
<td>5.9</td>
</tr>
<tr>
<td>P95/P05</td>
<td>12.8</td>
<td>13.7</td>
<td>11.3</td>
<td>9.8</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Source: INE Statistics Portugal, Household Budget Surveys.

Finally, between 2006 and 2010, there is also a marked divergence between expenditure and income inequality. During this period, income inequality decreased significantly, whereas expenditure inequality remained relatively unchanged, but for 2010 only expenditure data is yet available. Furthermore, 2010 coincides with the deepening of the economic crisis in Portugal. Rodrigues et al. (2012) argue that 2009 is the actual turning point in inequality in Portugal, and that the apparent contradiction just detected will be corrected when more data becomes available. The provisional results of EU-SILC 2011 seem to confirm this explanation with an increase in the Gini coefficient for 2010.

Table 2.5 takes the analysis of household expenditure further by calculating a wider set of inequality indicators.

Finally Table 2.6 summarises and compares the main tendencies of household and income inequality.
throughout the period. Initially (1989/94 period) inequality increased in terms of both income and expenditure, either total or (just) monetary. The rest of the nineties recorded opposing situations: expenditure inequality decreased while monetary income inequality increased and was only incompletely neutralised by the equalising effect of non-monetary income. This latter effect grew in importance in the early noughties, when monetary income inequality increased, but that of total income moved in the opposite direction, as expenditure inequality carried on decreasing. Finally, the late noughties registered another turn: now income inequality decreased whereas expenditure inequality remained relatively unchanged, and the non-monetary components lost their impact.

**Table 0.6 Changes in Inequality, Portugal, 1989–2009.**

<table>
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<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HBS – Total Income</td>
<td>↗</td>
<td>↔</td>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td>HBS – Monetary Income</td>
<td>↗</td>
<td>↗</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td>HBS – Total expenditure</td>
<td>↗</td>
<td>↓</td>
<td>↓</td>
<td>↔</td>
</tr>
<tr>
<td>HBS – Monetary expenditure</td>
<td>↗</td>
<td>↓</td>
<td>↓</td>
<td>↔</td>
</tr>
</tbody>
</table>

**2.1.3 Wealth and Debt Inequality**

Figure 2.12 shows that the gross household/private savings\(^4\) rate has decreased steadily in Portugal since the 1980s, from a maximum of 22.0% of Disposable Income in 1982 to 9.7% in 2010, with a minimum of about 7% in 2007/08 (its lowest value since 1961, and corresponding to only about 5% of GDP). This savings rate remained flat about 10/11% of Disposable Income (or 7.5% of GDP) during the 1995/2005 decade, following the de-regulation of the financial system (which led to a substantial and unprecedented availability of easy credit) and then the introduction of the euro and its low stable interest rates. The recent years reflect the increased indebtedness of the households lured by the easy credit at very low (nominal and real) interest rates, followed since 2008 by the effects of the financial crisis with both an unwillingness of the banks to lend and the financial difficulties experienced by the households.

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\(^4\) Alves and Cardoso (2010), footnote 1: the concepts of ‘private’ and ‘households’ savings are used interchangeably, though in some cases the data refers only to households and in others it also includes data on NPISH.
The main component of the households’ wealth is housing (see Figure 2.13), though its importance has considerably decreased from 70.2% of total household wealth in 1980 to around 50% from 1996, following the de-regulation of the financial system that such influence has had on the financial decisions of the Portuguese households. Still, the composition of the households’ portfolio is quite conservative, if progressively more diversified, revealing a strong preference for low risk assets: cash and deposits represented about 70% of the portfolio until 1987 and still more than a third in 2011, as can be judged from Figure 2.14.

The boom in the stock market together with fiscal incentives to invest in pension funds and the increase in life insurance (often required by the banks as part of mortgage agreements) led to a steady increase in the weight of these financial assets in the household’s portfolio. Shares and other equity became its largest component in 1996 and have remained its main part together with cash and deposits. However, Cardoso et al. (2008) argue that a substantial part of the increase in the value of the stock of financial assets was due to their price fluctuations (which were affected positively by the expansion of the stock market and its boom, but then negatively by its slump), and not to actual transactions.
Figure 0.13 Household Savings, Portugal, 1980–2011.

Source: Banco de Portugal.

Figure 0.14 Financial assets by (main) type as % of total financial assets, Portugal, 1980–2011.

Source: Banco de Portugal.

The Household Financial Situation Survey (ISFF) of 2010 revealed substantial wealth inequality as reported in Table 2.7. Net wealth (average and median) increases with monetary income to the extent that the average net wealth of the 10% highest income households is over 7 times that of the 20% lowest income ones. The average net wealth of the 10% wealthiest is more than 240 times that of the 25% less wealthy households, revealing an even more asymmetrical distribution than for income.
GINI Country Report Portugal

Table 0.7 Private Household Net Wealth, Portugal, 2010.

<table>
<thead>
<tr>
<th>Net Wealth Percentiles</th>
<th>Median Net Wealth</th>
<th>Average Net Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 25</td>
<td>2.3</td>
<td>3.3</td>
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<tr>
<td>25–50</td>
<td>47.3</td>
<td>47.1</td>
</tr>
<tr>
<td>50 – 75</td>
<td>106.3</td>
<td>110.5</td>
</tr>
<tr>
<td>75 – 90</td>
<td>204.2</td>
<td>213.3</td>
</tr>
<tr>
<td>90–100</td>
<td>482.4</td>
<td>805.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monetary Income Percentiles</th>
<th>Median Net Wealth</th>
<th>Average Net Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 20</td>
<td>42.6</td>
<td>69.7</td>
</tr>
<tr>
<td>20–40</td>
<td>49.0</td>
<td>84.0</td>
</tr>
<tr>
<td>40–60</td>
<td>69.5</td>
<td>107.8</td>
</tr>
<tr>
<td>60–80</td>
<td>93.0</td>
<td>144.7</td>
</tr>
<tr>
<td>80–90</td>
<td>129.3</td>
<td>207.2</td>
</tr>
<tr>
<td>90–100</td>
<td>231.0</td>
<td>511.0</td>
</tr>
</tbody>
</table>

Source: ISFF 2010.
Notes: Values in $10^3$ euros.

Non-financial assets represent 88% of the total household assets, with very little difference across the net wealth percentiles. This important characteristic of Portuguese household wealth was already discussed above.

In Table 2.8 the overwhelming importance of the main home is clear: together with ‘other real estate assets’ it corresponds, on average, to 78.9% of the total non-financial assets. The relative importance of the main home decreases with net wealth (and more than with income): the less wealthy own very little other real estate, but for the wealthiest the main home only represents 29.6% of the total. Businesses represent an important part of the assets of the highest net wealth and monetary income percentiles. Owning a car or motorbike represents an important asset for the less wealthy families (18.3%).

Over 70% of the Portuguese households own their main home and a motorized vehicle, and 27% also own other real estate, as shown in Table 2.9. Less than 10% of the households do not own any non-financial asset.
Table 0.8 Non-financial assets by type (%), Portugal, 2010.

<table>
<thead>
<tr>
<th></th>
<th>Main Home</th>
<th>Other real estate</th>
<th>Businesses</th>
<th>Jewellery, art, etc.</th>
<th>Motorised vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>54.6</td>
<td>26.3</td>
<td>13.6</td>
<td>1.0</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Net Wealth Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 25</td>
<td>75.6</td>
<td>5.3</td>
<td>0.3</td>
<td>0.4</td>
<td>18.3</td>
</tr>
<tr>
<td>25–50</td>
<td>85.2</td>
<td>5.7</td>
<td>1.1</td>
<td>0.4</td>
<td>7.5</td>
</tr>
<tr>
<td>50 – 75</td>
<td>80.5</td>
<td>10.7</td>
<td>1.3</td>
<td>0.6</td>
<td>6.9</td>
</tr>
<tr>
<td>75 – 90</td>
<td>74.2</td>
<td>15.6</td>
<td>4.3</td>
<td>0.7</td>
<td>5.1</td>
</tr>
<tr>
<td>90–100</td>
<td>29.6</td>
<td>41.6</td>
<td>25.1</td>
<td>1.4</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Monetary Income Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 20</td>
<td>76.5</td>
<td>17.1</td>
<td>2.1</td>
<td>0.5</td>
<td>3.9</td>
</tr>
<tr>
<td>20–40</td>
<td>69.3</td>
<td>19.0</td>
<td>7.6</td>
<td>0.3</td>
<td>3.9</td>
</tr>
<tr>
<td>40 – 60</td>
<td>66.5</td>
<td>21.0</td>
<td>6.8</td>
<td>0.3</td>
<td>5.4</td>
</tr>
<tr>
<td>60 – 80</td>
<td>60.1</td>
<td>24.7</td>
<td>8.9</td>
<td>1.0</td>
<td>5.2</td>
</tr>
<tr>
<td>80–90</td>
<td>53.7</td>
<td>27.5</td>
<td>11.6</td>
<td>1.4</td>
<td>5.7</td>
</tr>
<tr>
<td>90–100</td>
<td>33.6</td>
<td>34.8</td>
<td>26.5</td>
<td>1.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: ISFF 2010.

Table 0.9 Proportion of non-financial asset ownership by type (%), Portugal, 2010.

<table>
<thead>
<tr>
<th></th>
<th>Main Home</th>
<th>Other real estate</th>
<th>Businesses</th>
<th>Jewellery, art, etc.</th>
<th>Motorised vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>71.5</td>
<td>27.1</td>
<td>7.6</td>
<td>8.4</td>
<td>72.2</td>
</tr>
<tr>
<td><strong>Net Wealth Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 25</td>
<td>16.9</td>
<td>4.0</td>
<td>0.4</td>
<td>3.8</td>
<td>53.1</td>
</tr>
<tr>
<td>25–50</td>
<td>81.9</td>
<td>17.8</td>
<td>3.4</td>
<td>7.2</td>
<td>67.7</td>
</tr>
<tr>
<td>50 – 75</td>
<td>91.5</td>
<td>29.1</td>
<td>5.5</td>
<td>7.5</td>
<td>80.5</td>
</tr>
<tr>
<td>75 – 90</td>
<td>96.6</td>
<td>42.9</td>
<td>14.9</td>
<td>11.3</td>
<td>87.4</td>
</tr>
<tr>
<td>90–100</td>
<td>93.7</td>
<td>79.4</td>
<td>30.9</td>
<td>20.9</td>
<td>87.0</td>
</tr>
<tr>
<td><strong>Monetary Income Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 20</td>
<td>65.6</td>
<td>19.8</td>
<td>2.9</td>
<td>5.6</td>
<td>51.2</td>
</tr>
<tr>
<td>20–40</td>
<td>66.9</td>
<td>23.6</td>
<td>5.1</td>
<td>6.1</td>
<td>58.9</td>
</tr>
<tr>
<td>40 – 60</td>
<td>70.7</td>
<td>20.8</td>
<td>8.5</td>
<td>6.9</td>
<td>78.6</td>
</tr>
<tr>
<td>60 – 80</td>
<td>74.5</td>
<td>28.5</td>
<td>8.5</td>
<td>7.6</td>
<td>84.4</td>
</tr>
<tr>
<td>80 - 90</td>
<td>78.5</td>
<td>34.8</td>
<td>11.7</td>
<td>11.5</td>
<td>88.1</td>
</tr>
<tr>
<td>90–100</td>
<td>80.8</td>
<td>51.1</td>
<td>15.0</td>
<td>20.0</td>
<td>89.0</td>
</tr>
</tbody>
</table>

Source: ISFF 2010.

Ownership increases with net wealth and income, but even 16.9% of the less wealthy households own their main home and more than half own a motorized vehicle. The asymmetry is overwhelming as 93.7% of the 10% wealthiest own their main home, but also 79.4% of them own other real estate. Costa and Farinha (2012) found further relevance for increasing ownership by the education level attained and the degree of responsibility of the job of the head of the household. They also discuss the value of the non-financial assets: for example, the median value of the main home of the less wealthy is equal to 52.0 thousand euros whereas that of the wealthiest is 200.0 thousand.
Table 2.10 confirms the previous result that the financial portfolio held by the average household is dominated by deposits (12.5% in current and 58.1% in savings accounts). This proportion decreases with wealth, with a progressive move firstly away from current to savings accounts and then to other types of financial products. Pension plans are relatively recent, with a significant % only up to the 45.54 age group (10.4% on average). Tradable assets (shares, bonds and investments in mutual funds) are about 13% of the total and much more important for the wealthiest (and highest income) percentile.

Table 0.10  Financial assets by type (%), Portugal, 2010.

<table>
<thead>
<tr>
<th>Net Wealth Percentiles</th>
<th>Current Accounts</th>
<th>Savings Accounts</th>
<th>Tradable Assets</th>
<th>Voluntary Pensions Plans</th>
<th>Other Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>12.5</td>
<td>58.1</td>
<td>12.8</td>
<td>10.4</td>
<td>6.2</td>
</tr>
<tr>
<td>&lt; 25</td>
<td>49.1</td>
<td>35.9</td>
<td>1.1</td>
<td>4.8</td>
<td>9.0</td>
</tr>
<tr>
<td>25–50</td>
<td>23.4</td>
<td>59.3</td>
<td>3.3</td>
<td>7.2</td>
<td>6.8</td>
</tr>
<tr>
<td>50–75</td>
<td>14.2</td>
<td>63.7</td>
<td>5.8</td>
<td>10.2</td>
<td>6.1</td>
</tr>
<tr>
<td>75–90</td>
<td>14.0</td>
<td>61.4</td>
<td>6.0</td>
<td>11.1</td>
<td>7.5</td>
</tr>
<tr>
<td>90–100</td>
<td>7.2</td>
<td>55.5</td>
<td>20.7</td>
<td>11.1</td>
<td>5.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monetary Income Percentiles</th>
<th>Current Accounts</th>
<th>Savings Accounts</th>
<th>Tradable Assets</th>
<th>Voluntary Pensions Plans</th>
<th>Other Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 20</td>
<td>20.3</td>
<td>66.4</td>
<td>1.3</td>
<td>4.6</td>
<td>7.4</td>
</tr>
<tr>
<td>20–40</td>
<td>17.6</td>
<td>64.6</td>
<td>2.0</td>
<td>4.6</td>
<td>11.2</td>
</tr>
<tr>
<td>40–60</td>
<td>15.9</td>
<td>61.8</td>
<td>3.2</td>
<td>8.2</td>
<td>11.0</td>
</tr>
<tr>
<td>60–80</td>
<td>13.5</td>
<td>61.2</td>
<td>4.7</td>
<td>12.2</td>
<td>8.4</td>
</tr>
<tr>
<td>80–90</td>
<td>14.0</td>
<td>55.9</td>
<td>7.3</td>
<td>16.2</td>
<td>6.5</td>
</tr>
<tr>
<td>90–100</td>
<td>8.6</td>
<td>54.2</td>
<td>23.8</td>
<td>10.5</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: ISFF 2010.
Table 0.11 Debt value by type (%), Portugal, 2010.

<table>
<thead>
<tr>
<th></th>
<th>Mortgage on main home</th>
<th>Other mortgages</th>
<th>Loans other than mortgages</th>
<th>Credit cards and bank overdrafts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>80.3</td>
<td>11.9</td>
<td>6.6</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Net Wealth Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 25</td>
<td>79.2</td>
<td>6.8</td>
<td>12.5</td>
<td>1.5</td>
</tr>
<tr>
<td>25–50</td>
<td>90.9</td>
<td>3.6</td>
<td>4.8</td>
<td>0.6</td>
</tr>
<tr>
<td>50–75</td>
<td>82.5</td>
<td>10.1</td>
<td>6.6</td>
<td>0.8</td>
</tr>
<tr>
<td>75–90</td>
<td>76.8</td>
<td>17.4</td>
<td>4.5</td>
<td>1.4</td>
</tr>
<tr>
<td>90–100</td>
<td>66.9</td>
<td>24.3</td>
<td>6.2</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Monetary Income Percentiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 20</td>
<td>81.6</td>
<td>5.9</td>
<td>11.6</td>
<td>0.9</td>
</tr>
<tr>
<td>20–40</td>
<td>78.6</td>
<td>11.0</td>
<td>8.9</td>
<td>1.5</td>
</tr>
<tr>
<td>40–60</td>
<td>88.1</td>
<td>6.0</td>
<td>5.3</td>
<td>0.5</td>
</tr>
<tr>
<td>60–80</td>
<td>78.0</td>
<td>12.4</td>
<td>8.7</td>
<td>0.9</td>
</tr>
<tr>
<td>80–90</td>
<td>80.6</td>
<td>14.2</td>
<td>3.8</td>
<td>1.4</td>
</tr>
<tr>
<td>90–100</td>
<td>76.1</td>
<td>16.5</td>
<td>4.9</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: ISFF 2010.

From Costa and Farinha (2012), 37.7% of the households are in debt, with a median value of 30.7 thousand euros. The most important debt is the mortgage on the main home (24.5% of households) with a median value of 46.1 thousand euros. Table 2.11 gives further details on the structure of household indebtedness.

Household indebtedness is dominated by mortgages on the main home: 80.3% on average, higher for the 25.50 percentile of net wealth, and lowest for the highest (66.9%, but 91.2% if all mortgages are included). The importance of other loans in the lowest net wealth (and income) percentile, unlike any others, possibly suggests financial difficulties. There is actually a much stronger connection between credit card debt and the highest wealth and income percentiles (2.7% and 2.5%, respectively). Indebtedness varies much less with income (between 76.1% and 88.1%) than with net wealth, possibly due to its main cause – home ownership.
From Table 2.12, the median of the ratio debt repayments/monthly monetary income is equal to 16%, but for 13% of the indebted households this ratio is higher than 40% (considered its critical value). Naturally the ratio decrease with income, but 57.9% of the households in the lowest income percentile are above the critical 40% level, a serious problem. The ratio does not vary very significantly with wealth.

2.1.4 Labour market inequality

Table 2.13 reports the results of different earnings inequality indices for the period 1985-2009. There is a clear increase in earnings inequality as measured by the Gini coefficient: it increases steadily until 1994 (0.344), then decreases slightly and remains largely unchanged until reaching a new maximum in 2003 (0.346) and the absolute maximum for the period in 2005 (0.351) followed again by a small decrease (0.344 in 2009). The Atkinson Index with ε=0.5, the more sensitive to changes in the higher earnings, shows the highest increase (about 54% over the period), thus giving a first glimpse of the link between the increase in earnings inequality and the highest earnings. Increases in the indices more sensitive to the lower end of the distribution, Atkinson ε=0.2 and DML, reveal increasing inequality for lower earners.

The plot of these results in Figure 2.15 clarifies this evolution. The 2nd half of the 1980s and 1st half of the 1990s correspond to a period of increasing earnings inequality, followed by a decrease until the end of that decade. Then, between 2000 and 2005, most indices display a sustained increase in earnings inequality, both for the lowest and highest earners. The following
years registered a decrease in inequality with the exception of 2008, when earnings increases at the higher end of the distribution led to an increase in inequality.

Table 0.13 Earnings Inequality indices, Portugal, 1985–2009.

<table>
<thead>
<tr>
<th></th>
<th>Gini</th>
<th>Atkinson $\varepsilon=0.5$</th>
<th>Atkinson $\varepsilon=1.0$</th>
<th>Atkinson $\varepsilon=2.0$</th>
<th>MLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>0.284</td>
<td>0.067</td>
<td>0.123</td>
<td>0.215</td>
<td>0.131</td>
</tr>
<tr>
<td>1986</td>
<td>0.288</td>
<td>0.069</td>
<td>0.127</td>
<td>0.220</td>
<td>0.135</td>
</tr>
<tr>
<td>1987</td>
<td>0.291</td>
<td>0.070</td>
<td>0.128</td>
<td>0.220</td>
<td>0.137</td>
</tr>
<tr>
<td>1988</td>
<td>0.294</td>
<td>0.072</td>
<td>0.130</td>
<td>0.219</td>
<td>0.139</td>
</tr>
<tr>
<td>1989</td>
<td>0.300</td>
<td>0.075</td>
<td>0.135</td>
<td>0.223</td>
<td>0.145</td>
</tr>
<tr>
<td>1990</td>
<td>0.319</td>
<td>0.085</td>
<td>0.151</td>
<td>0.242</td>
<td>0.163</td>
</tr>
<tr>
<td>1991</td>
<td>0.334</td>
<td>0.094</td>
<td>0.164</td>
<td>0.260</td>
<td>0.179</td>
</tr>
<tr>
<td>1992</td>
<td>0.338</td>
<td>0.096</td>
<td>0.167</td>
<td>0.264</td>
<td>0.183</td>
</tr>
<tr>
<td>1993</td>
<td>0.344</td>
<td>0.100</td>
<td>0.173</td>
<td>0.270</td>
<td>0.190</td>
</tr>
<tr>
<td>1994</td>
<td>0.339</td>
<td>0.097</td>
<td>0.168</td>
<td>0.263</td>
<td>0.184</td>
</tr>
<tr>
<td>1995</td>
<td>0.341</td>
<td>0.099</td>
<td>0.171</td>
<td>0.264</td>
<td>0.187</td>
</tr>
<tr>
<td>1996</td>
<td>0.338</td>
<td>0.097</td>
<td>0.168</td>
<td>0.260</td>
<td>0.184</td>
</tr>
<tr>
<td>1997</td>
<td>0.337</td>
<td>0.096</td>
<td>0.167</td>
<td>0.260</td>
<td>0.182</td>
</tr>
<tr>
<td>1998</td>
<td>0.336</td>
<td>0.096</td>
<td>0.166</td>
<td>0.258</td>
<td>0.182</td>
</tr>
<tr>
<td>1999</td>
<td>0.338</td>
<td>0.096</td>
<td>0.167</td>
<td>0.260</td>
<td>0.183</td>
</tr>
<tr>
<td>2000</td>
<td>0.342</td>
<td>0.099</td>
<td>0.171</td>
<td>0.266</td>
<td>0.188</td>
</tr>
<tr>
<td>2001</td>
<td>0.346</td>
<td>0.101</td>
<td>0.174</td>
<td>0.270</td>
<td>0.192</td>
</tr>
<tr>
<td>2002</td>
<td>0.349</td>
<td>0.103</td>
<td>0.177</td>
<td>0.274</td>
<td>0.195</td>
</tr>
<tr>
<td>2003</td>
<td>0.351</td>
<td>0.105</td>
<td>0.179</td>
<td>0.277</td>
<td>0.198</td>
</tr>
<tr>
<td>2004</td>
<td>0.350</td>
<td>0.104</td>
<td>0.179</td>
<td>0.276</td>
<td>0.197</td>
</tr>
<tr>
<td>2005</td>
<td>0.347</td>
<td>0.102</td>
<td>0.175</td>
<td>0.271</td>
<td>0.193</td>
</tr>
<tr>
<td>2006</td>
<td>0.347</td>
<td>0.103</td>
<td>0.176</td>
<td>0.271</td>
<td>0.194</td>
</tr>
<tr>
<td>2007</td>
<td>0.347</td>
<td>0.101</td>
<td>0.173</td>
<td>0.267</td>
<td>0.190</td>
</tr>
<tr>
<td>2008</td>
<td>0.344</td>
<td>0.101</td>
<td>0.173</td>
<td>0.267</td>
<td>0.190</td>
</tr>
<tr>
<td>2009</td>
<td>0.344</td>
<td>0.101</td>
<td>0.173</td>
<td>0.267</td>
<td>0.190</td>
</tr>
</tbody>
</table>

Source: Quadros de Pessoal, MSSS/GEP, and Rodrigues et al. (2012).

Figure 0.15 Earnings Inequality indices, Portugal, 1985–2009.

Source: Quadros de Pessoal, MSSS/GEP, and Rodrigues et al. (2012).
This image of increased earnings inequality is visible in Figure 2.16 which illustrates the gains and losses of selected deciles over the period by taking the initial 1985 value as equal to 100. The highest earnings (10th) decile has increased the most over the period; the 1st decile (lowest earnings) registered modest gains, but also losses for example in the early 1990s and between 1999 and 2005; the 9th decile (the second highest earnings) shows very modest gains, never departing from the 100 line. It is the behaviour of both the 2nd and 5th deciles, consistently with heavy losses, that is most remarkable.
Table 0.14 Wealthiest earnings shares, Portugal, 1985–2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>10% wealthiest</th>
<th>5% wealthiest</th>
<th>1% wealthiest</th>
<th>0.5% wealthiest</th>
<th>0.1% wealthiest</th>
<th>0.01% wealthiest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>23.96</td>
<td>14.70</td>
<td>4.59</td>
<td>2.76</td>
<td>0.87</td>
<td>0.15</td>
</tr>
<tr>
<td>1986</td>
<td>24.37</td>
<td>14.99</td>
<td>4.70</td>
<td>2.84</td>
<td>0.92</td>
<td>0.16</td>
</tr>
<tr>
<td>1987</td>
<td>24.62</td>
<td>15.17</td>
<td>4.73</td>
<td>2.85</td>
<td>0.89</td>
<td>0.16</td>
</tr>
<tr>
<td>1988</td>
<td>25.01</td>
<td>15.55</td>
<td>4.93</td>
<td>2.98</td>
<td>0.92</td>
<td>0.15</td>
</tr>
<tr>
<td>1989</td>
<td>25.75</td>
<td>16.19</td>
<td>5.27</td>
<td>3.20</td>
<td>0.96</td>
<td>0.14</td>
</tr>
<tr>
<td>1991</td>
<td>27.37</td>
<td>17.66</td>
<td>5.95</td>
<td>3.57</td>
<td>0.99</td>
<td>0.14</td>
</tr>
<tr>
<td>1992</td>
<td>28.69</td>
<td>18.61</td>
<td>6.14</td>
<td>3.65</td>
<td>1.00</td>
<td>0.13</td>
</tr>
<tr>
<td>1993</td>
<td>28.94</td>
<td>18.96</td>
<td>6.40</td>
<td>3.79</td>
<td>1.00</td>
<td>0.13</td>
</tr>
<tr>
<td>1994</td>
<td>29.46</td>
<td>19.46</td>
<td>6.84</td>
<td>4.17</td>
<td>1.22</td>
<td>0.21</td>
</tr>
<tr>
<td>1995</td>
<td>29.10</td>
<td>19.00</td>
<td>6.58</td>
<td>4.06</td>
<td>1.29</td>
<td>0.24</td>
</tr>
<tr>
<td>1996</td>
<td>29.48</td>
<td>19.35</td>
<td>6.77</td>
<td>4.19</td>
<td>1.36</td>
<td>0.26</td>
</tr>
<tr>
<td>1997</td>
<td>29.22</td>
<td>19.07</td>
<td>6.63</td>
<td>4.12</td>
<td>1.34</td>
<td>0.26</td>
</tr>
<tr>
<td>1998</td>
<td>29.09</td>
<td>18.88</td>
<td>6.43</td>
<td>3.96</td>
<td>1.28</td>
<td>0.28</td>
</tr>
<tr>
<td>1999</td>
<td>29.20</td>
<td>18.97</td>
<td>6.54</td>
<td>4.09</td>
<td>1.39</td>
<td>0.35</td>
</tr>
<tr>
<td>2000</td>
<td>29.13</td>
<td>18.76</td>
<td>6.39</td>
<td>3.97</td>
<td>1.30</td>
<td>0.28</td>
</tr>
<tr>
<td>2002</td>
<td>29.52</td>
<td>19.15</td>
<td>6.58</td>
<td>4.12</td>
<td>1.39</td>
<td>0.33</td>
</tr>
<tr>
<td>2003</td>
<td>29.78</td>
<td>19.36</td>
<td>6.74</td>
<td>4.25</td>
<td>1.45</td>
<td>0.33</td>
</tr>
<tr>
<td>2004</td>
<td>29.96</td>
<td>19.50</td>
<td>6.79</td>
<td>4.29</td>
<td>1.46</td>
<td>0.34</td>
</tr>
<tr>
<td>2005</td>
<td>30.13</td>
<td>19.65</td>
<td>6.85</td>
<td>4.32</td>
<td>1.48</td>
<td>0.37</td>
</tr>
<tr>
<td>2006</td>
<td>30.10</td>
<td>19.61</td>
<td>6.81</td>
<td>4.29</td>
<td>1.47</td>
<td>0.35</td>
</tr>
<tr>
<td>2007</td>
<td>29.83</td>
<td>19.34</td>
<td>6.64</td>
<td>4.16</td>
<td>1.40</td>
<td>0.32</td>
</tr>
<tr>
<td>2008</td>
<td>30.00</td>
<td>19.55</td>
<td>6.83</td>
<td>4.32</td>
<td>1.49</td>
<td>0.39</td>
</tr>
<tr>
<td>2009</td>
<td>29.83</td>
<td>19.33</td>
<td>6.64</td>
<td>4.16</td>
<td>1.40</td>
<td>0.34</td>
</tr>
</tbody>
</table>

Source: Quadros de Pessoal, MSSS/GEP, and Rodrigues et al. (2012).

Another view of this increased earnings inequality is presented in Figure 2.17, where the highest end of the earnings distribution is compared with its middle through the calculation of the $P_{99}/P_{50}$, $P_{95}/P_{50}$, and $P_{99}/P_{50}$ ratios, where $P_{50}$ is the 50% percentile. There is a sustained increase in the $P_{99}/P_{50}$ ratio, particularly between 1985 and 1994: whereas in 1985 the 1% top earners received 4.1 times what the middle earners got, in 1994 that number had gone up to 6.5, virtually the same as in 2009 (6.3). The behaviour of the other two ratios is much steadier, with $P_{95}/P_{50}$ increasing from 2.5 to 3.5 times and $P_{90}/P_{50}$ from 2.0 to 2.5 over the 1985-2009 period. Therefore, the driving force in increasing earnings inequality can be clearly identified as the P99 earners.

### 2.1.5 Educational Inequality

There has been a determined and consistent effort by successive Portuguese governments to improve the level of education of the population in general. In Figure 2.18, the proportion of pupils and students in the resident population has increased significantly over the years, exceeding 20% of
the population since 1983\(^5\), with substantial increases in ISCED0 (pre-school education), ISCED3 (secondary) and 5+6 (tertiary) since the late 1980s. In the last few years this effort has been particularly significant in terms of adult education, in line with the Lisbon 2000 recommendations. In 2010, 8.2% of the population were enrolled in secondary and tertiary education (ISCED3 and 5+6), or 12.9% of the population were enrolled in Secondary School (ISCED2+3) and University and Polytechnic Institutes (ISCED 5+6). What is also clear from the figure is the decrease in enrolment in ISCED1A (Primary education) which reflects the decrease of the Portuguese birth rate that will be discussed later.

The (Gross) Enrolment rate\(^6\) has increased steadily in Portugal from 15.4% in 1980 to 85% in 2010 (see Figure 2.19). ISCED1A and 1B (basic levels 1 and 2) enrolment rates have been above 100% since 1976. There has been a significant increase in Secondary School enrolment rates, ISCED2 and 3, leading to rates above 100% since 1992 and 1996, respectively. Tertiary education enrolment rate (ISCED5+6) has increased from 10.7% to 53.8% in 2010 (consistently above 50% since 2002).

\(^5\) Education was made compulsory to age 15 from 1.1.1981 (which corresponds to attaining ISCED2 if pupils have not had to re-take any year). It is now compulsory to age 18 (ISCED3) to pupils that started school in the 2009-10 academic year.

\(^6\) The (Gross) Enrolment Rate is defined as the proportion of pupils and students enrolled at each level of education, irrespective of their age, over the total number of resident population of normal age to be enrolled at that level of education. In the Portuguese education system, pupils and students that do not achieve a pre-defined minimum standard have to re-take the year, and therefore gross enrolment rates above 100% are shown in Figure 2-19.
The sharp increase in the number of pupils enroled in ISCED2 and 3 education in recent years is explained by the impact of the “New Opportunities” programme of adult education, as can be seen by the detailed enrolment data by education level given in Figure 2.20. It shows a sharp increase in the number of adult pupils enroled in those levels starting in the 2008-09 academic year, whereas
the number of pupils of ‘regular’ age has remained largely constant since 2000. This issue will be discussed in detail below in the section on back-to-school initiatives.

Figure 0.20 Number of pupils enroled by age group and level of education, Portugal, 2000–2010.

![Graph showing enrollment trends from 2000/01 to 2009/10, with data for Total, ISCED 1+2, ISCED 2, ISCED 3, Total youth pupils, Youth ISCED 1+2, Youth ISCED 2, and Youth ISCED 3.

Source: Department of Education, GEPE/ME.

The higher enrolment rates in the upper education levels recorded has led to a marked increase in the percentage of 25.64 year olds that have attained ‘upper secondary and post-secondary’ (ISCED3+4) and ‘tertiary’ (ISCED5+6) education, as shown in Figure 2.21. It has increased markedly over the period, from 18% in 1998 to 30% in 2009 with a virtual equal contribution from the two education levels.

Figure 0.21 Education Attainment 25-64 year olds, Portugal, 1998–2010.

![Bar chart showing education attainment from 1998 to 2010 for ISCED 1+2, ISCED 3+4, ISCED 5+6.

Source: OECD, Education at a Glance, several issues.
According to the OECD 2011 Education at a Glance report, in 2009 only 30% of the Portuguese 25.64 year olds had attained at least ISCED3, but that rate was highest, 48%, in the younger group 25.34 olds, thus reflecting the significant improvements in education already discussed. Furthermore, in Figure 2.22 it can be seen that the percentage of 15.19 year olds that stay in education has increased from 73% in 1997 (71.6% in 1998) to 85.2% in 2010, whereas that of the next age group (20-24) changed between 38.4% in 1997 (32.4% in 1998) and 39.6% in 2010.\footnote{The students numbers will be affected by the decrease in the duration of university degrees from 5 to 4 and then to 3 academic years with the introduction of the Bologna scheme in the Portuguese universities.}

This situation is also reflected in the education attainment of the Labour Force. In Figure 2.23 the average labour force participation rate varies substantially with the highest level of education attained. It is always highest for those with ISCED5+6 education (well above 80% throughout the period) and lowest for those with ‘no’ education. It is curious that the 2\textsuperscript{nd} highest activity rate is for those with ISCED1B (compulsory education level between 1966 and 1980).

\textbf{Figure 0.22 Proportion 15-29 year olds by work status, Portugal, 1997–2010.}

Perhaps a clearer picture is given by the (maximum) educational attainment of the employed population which is given by age group in Figure 2.24 and Figure 2.25. As the education attainment levels continue to improve, the percentage of employees with no or basic education has decreased in the younger age groups, as can be seen in Figure 2.25, but there is an increase in the 35.44 and 45.64 groups with attained ISCED1B. This possibly reflects the success of the back to school initiatives that will be discussed below, plus the natural ageing of the population. When the education level attained is higher (ISCED2 and above), Figure 0.24, there seems to be less relative difference amongst the age
groups, except the officially retired that are still at work (65+), though the natural ageing may explain a certain drift: there is a decrease in the percentage of the younger employees with ISCED2 and an increase in that of the 45.64. The clearest improvement is in the reduction in the percentage of those employed that have none or only basic education (ISCED1A and 1B) in all age groups (except the 65+).

Figure 0.23 Labour force participation rate by highest level of education attained, Portugal, 1998–2010.

Figure 0.24 Average employed population by age group and education attainment (ISCED2, 3+4 and 5+6), Portugal, 1998–2010.
Figure 0.25  Average employed population by age group and education attainment (none, ISCED1A and 1B), Portugal, 1998–2010.

Source: INE Statistics Portugal.

Figure 0.26  Unemployment Rate by highest level of education attained, Portugal, 1998–2010.

Source: INE Statistics Portugal.

In Figure 2.26, the unemployment rate shows a similar evolution for all levels of education with an initial decrease until 2000/1 (around 2%-6%), followed by a moderate increase (4%-8%), and a
steeper rise from 2008 (national rate of 10% in 2010). Perhaps surprisingly, it is the ‘no education’ group that has the lowest unemployment rate until 2008 (between 2%-5%; 9.2% in 2010), but as the crisis struck, this place was taken by the ISCED5+6 group (between 3%-8%; 7.1% in 2010). The consistently highest unemployment rate during this period has been in ISCED2 (compulsory education level until recently) with a minimum of 5.3% in 2000 and a maximum of 13.1% in 2010.

A detailed study of the registered unemployed with attained ISCED5+6 education was published by GPEARI (2011). It found that of all unemployed in December 2010, 7.4% were graduates, corresponding to 3.5% of the total number of 15.64 year olds with that level of educational attainment. Furthermore, 2/3 of them were female, 67.2% were younger than 35, 71.9% had been registered as unemployed for less than a year (national average of 58%), and 27.0% were looking for their 1st job. It also found that 31.9% of them had graduated recently (three years or less), and that there was no difference between graduates of universities and polytechnic institutes, or between public and private institutions. By scientific subject, most unemployed had a degree in Management/Business Studies, Social Sciences (Psychology, Economics, Sociology and International Relations), and Education (Pre-Primary and Primary school teachers). Relatively to the total number of graduates, the areas less affected were Security Services, Health, Maths and Stats, Computing Science and Engineering; the worse affected were Social Services, Journalism, Social Sciences and Fine Arts.

There has been a particularly significant effort by recent Portuguese governments in improving the educational attainment and qualifications of the adult population and early school leavers, in line with the Lisbon 2000 recommendations.

Initially, these ‘back to school’/ ‘lifelong learning’ initiatives were limited to dedicated adult evening classes at ISCED1 and 2 levels that followed the same curriculum and examinations as regular school: the recurrent learning scheme (“ensino recorrente”). Building on its success and following the development of the ‘New Opportunities’ initiative, the emphasis was changed to either courses specifically designed for older pupils that had disengaged with the standard education system, or/and the recognition and validation of the acquired professional skills and experience of the candidates. Thus, EFA (adult education and training courses) and RVCC (national scheme of recognition, validation and skills certification) were created8. Modular courses dedicated to people in employment have also been created. All these schemes lead to the attainment of ISCED1, 2 and 3 levels of education.

8 For full details see http://www.novasoportunidades.gov.pt/.
By 2010, there were 459 RVCC centres across the country, using an officially accredited ‘National Catalogue of Skills’ (started in 2006) that now includes 262 different professional qualifications. In the latest EU report (Hawley et al. (2010)), Portugal is included in the group of countries that has “a high degree of development” and a significant level of take-up of ‘return to education’ opportunities.

Figure 2.27 shows adult enrolment in the different ‘return to education’ initiatives (data available from the 2000/01 academic year). The high levels of enrolment in the recurrent learning scheme, particularly at secondary level, declined from 2005/6, and it was effectively replaced by the RVCC with a sharp increase in enrolment in the latter since 2007/8. In 2010, 63.8% of adult enrolment was in the RVCC and only 4.7% in the recurrent scheme. The enrolment in EFA courses has also increased over the more recent years, but not as significantly. However, a very recent evaluation of the RVCC (Lima (2012)) argues that schemes that include formal teaching are more successful in terms of employability and increase in earnings of their graduates than the RVCC.

Figure 0.27 Adult enrolment in return to education initiatives, Portugal, 2001–2010.

![Graph showing adult enrolment in different education initiatives from 2000/01 to 2009/10.]

Source: Department of Education, GEPE/ME.
Notes: EFA – adult education and training courses, Recurrent – adult recurrent learning scheme, RVCC – adult recognition, validation and certification of skills, Modules – adult modular courses.

Another important aspect of the return to education initiatives applies to youths that have abandoned school early (or are ‘at-risk’ of doing so), but are still within school age (up to 15 years old
in ISCED2 and 18 in ISCED3). This ‘non-standard’ part of the education system is divided into CEF (youth education and training courses, similar to EFA above), professional, learning, and specialised artistic courses, which lead to the attainment of at least ISCED2 and $3^9$. The CEF courses are intended to lead to CET (youth specialised technological courses) which are ISCED4. They are often organised by Polytechnic Institutes and can give admission to ISCED5 level education. The number of pupils in these courses has increased considerably, particularly since 2007/08, but numbers are still low. Professional courses at ISCED3 level attract the largest number of pupils, but enrolment in CEF ISCED2 courses has increased (Figure 2.28). In general, ISCED3 courses, either professional, learning or CEF, are the most popular with about 80% of the enrolment (but 74.4% in 2009/10). CET enrolment is still low (3.6% of the total in 2009/10), but this data source only includes courses running in ISCED5 institutions.

![Figure 0.28 Non-regular youth enrolment, Portugal, 2000–2010.](image)

Source: Department of Education, GEPE/ME.

Notes: Nop – New Opportunities Program, CEF – youth education and training courses, Professional C – youth professional courses, Learning C – youth learning courses, Specialised Art C – youth specialised art courses, CET – youth specialised technological courses.

It is possible to summarise much of this topic in the two next figures. Figure 2.29 gives the distribution of households according to the education level attained by the head. It shows a clear

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improvement between 1993, when 83% had attained ISCED2 at most, and 2009, 72%. In the most recent year, 14% of the heads had either attained ISCED3 or ISCED4+5, up from 9% and 7%, respectively in 1993. The education level attained by the head was reflected in the level of the relative mean income of the households, as portrayed in Figure 2.30: higher education achievement is rewarded with higher income. However, a decrease in the relative mean incomes is noticeable, particularly for ISCED4+5 and with higher inequality, possibly reflecting the higher proportion of graduates in the labour force.

Figure 0.29 Distribution of households according to education level of the head of household, Portugal, 1993–2009

Source: Eurostat (ECHP/EU-SILC), and Rodrigues et al. (2012).

Figure 0.30 Relative Mean Income and inequality (MLD) according to education level of the head of household, Portugal, 1993–2009

Source: Eurostat (ECHP/EU-SILC), and Rodrigues et al. (2012).
Notes: Relative mean income (left scale and bars), MLD (right scale and lines).
2.2 Interdependence between the above inequalities over time

Figure 2.31 aims to ascertain the evolution of inequality in Portugal as measured by the Gini coefficient, drawing on the two main statistical sources used in this report: the Household Budget Surveys to characterise the income distribution, and the ‘Quadros de Pessoal’ to characterise wage asymmetry.

Figure 0.31 Changes in inequality (Gini Index), Portugal, 1985–2009.


Crossing the information provided by both household income and wage inequality enables the clear identification of time sub-periods where the behaviour of the different distributions indicates a consistent pattern of the evolution of inequality in Portugal.

Firstly, in the period between the mid-eighties and 1994 there was a steep increase in inequality, whichever distribution is chosen. It should be remembered this is the period of strong growth and economic integration after Portugal became a member of the EU.

The second half of the noughties until 2009 was another period when the behaviour of inequality is undisputed, with a significant reduction in the Gini coefficient across the distributions. However, the magnitude of this reduction was not sufficient to compensate for the increase in inequality that had occurred in the intervening period and therefore to restore the Gini to the values of the early nineties.

It is in this intervening period, 1994/2005, that identifying the pattern of variation in inequality becomes more problematic. Whereas HBS data household monetary income inequality points to a
significant rise in inequality (about two percentage points in the Gini coefficient), total income from the same data source points to a certain stability or even a small decrease. This reduction in inequality is backed by the analysis of the income distribution using the ECHP and EU-SILC data, as discussed throughout this chapter.

The evolution of wage inequality in this 1994/2005 period also suggests a relative stability, particularly when compared with the strong rise in inequality in the previous period.

2.3 The nature of inequality

The analysis of the evolution of inequality in Portugal in this chapter needs to be put into context: during this period Portugal remained one of the most unequal countries in the EU.

Another important aspect to be taken into account in this analysis is that during the 1989/2009 period the equivalised income of all Portuguese economic groups grew in real terms. Except in 1989/94, the real rate of growth of the first two deciles of the distribution was higher than that of average income, and therefore its share of the total income was not reduced. The implementation of a number of means-tested policies aimed at the more vulnerable sectors of the population which started in the second half of the nineties had a prominent role in this achievement. This explains how the poverty indicators were significantly reduced after 1994 although inequality increased.

The rise in wage inequality is clearly connected to the substantial rise in the earnings of the higher wage distribution deciles. On the other hand, during this period the relative depreciation of the minimum wage with respect to the average wage was intensified, as will be discussed in Chapter 5 below.

The analysis of wealth inequality, although confined to 2010 due to data consistency limitations, confirms the high levels of inequality in the Portuguese economy and society. Finally, the role of education attainment and qualification levels is fundamental in the analysis of inequality in Portugal. Studies like Alves (2009), Rodrigues (2007), and Rodrigues et al. (2012) found that the level of education attained is the most important explanatory variable of inequality. The latter estimates that the level of education attained by the reference individual of the household explains more than 25% of the household inequality as measured by the MLD. The recent marked improvement of education attainment and qualification levels of the Portuguese population should have an important attenuating role on future inequality.
The Social Impacts of inequality

3.1 Introduction

The objective of this chapter is to evaluate the impact that the changes in inequality observed during recent decades had on the living standards of the population. Different aspects of those will be considered, such as deprivation, poverty and social exclusion, health, housing, social cohesion, and criminality. The aim is to further the analysis of inequality of the previous chapter into a wider concept of well-being of the individuals, when inequality and monetary poverty are considered as only two components of a larger and multidimensional picture.

Establishing a simple causal relationship between levels of inequality and different aspects of the living standards of the population is particularly difficult, and thus will not be the aim of this chapter. This difficulty is particularly evident when the rise in inequality goes hand in hand with a rise in the real disposable income of all economic groups, as that recorded in Portugal during the period under analysis.

3.2 Material deprivation

The material dimension of poverty, or material deprivation, is defined as the inability to attain certain basic standards of living and consumption. The EU has defined nine indicators of material deprivation (Guio(2005), Guio et al.(2009)) and measures material deprivation as the enforced lack of at least any three of those nine items; severe material deprivation is defined as the enforced lack of at least any four.

In 2010, 22.5% of the Portuguese were materially deprived, a percentage that has not changed much from 21.7% in 2004, with a minimum of 19.9% in 2006 and a maximum of 23.0% in 2008, as reported in Figure 3.1. However, if age is taken into consideration, there was a considerable decrease in the deprivation rate of the elderly (31.1% in 2004 to 24.4% in 2010), reflecting the success of the social policy measures aimed at this age group. However, there was an increase in the deprivation rate of the youngest age group (less than 18 years) which has recently become the most deprived group with a rate of 27.5% in 2010.
The same conclusions can be very much derived from the rate of severe deprivation reported in Figure 3.2. Figure 0.2 shows that the severe material deprivation rate (lack of four or more items) of the population with age 18 and over decreases with the maximum level of education attained, but varies in time in curious patterns. There has been an increase in this rate for ISCED 5+6 since 2008, possibly reflecting a relatively bigger impact of the financial crash and subsequent financial difficulties, and similar but more irregular for ISCED 3+4.
Adding the older population in Figure 0.4 does not significantly influence the results and main tendencies already observed except in the ISCED0+2 group where higher privacy levels can be observed. One of the reasons for this difference will be a higher concentration of individuals with lower levels of educational attainment in this group.

**Figure 0.3** Severe material deprivation rate by education level (population aged 18 and over), Portugal, 2004–2010.

Source: Eurostat (EU-SILC).

**Figure 0.4** Severe material deprivation rate by education level (population aged 18-64 yrs), Portugal, 2004–2010

Source: Eurostat (EU-SILC).
A more reasonable pattern is found in Figure 3.5 where clearly the more deprived are those in the lowest income quintiles. However, a decrease in deprivation of the lowest (1st) quintile has not been matched by the 2nd quintile, with particularly opposing behaviour in 2008.

**Figure 0.5  Severe material deprivation rate by income quintile, Portugal, 2004–2010.**

Source: Eurostat (EU-SILC).

### 3.3 Cumulative disadvantage and multidimensional measures of poverty and social exclusion

It is a curious fact that not all people that are at risk of poverty (income below the 60% median threshold – an objective criterion) see themselves as lacking a sufficient number of items so that they are considered to be materially deprived (at least three items) or severely materially deprived (at least four items). Perhaps even more curious is the converse fact that many that are not at risk of poverty see themselves as materially deprived.

Table 3.1 from Rodrigues and Andrade (2012) using EU-SILC 2008 data fully illustrates the non-overlap of monetary poverty and deprivation, by showing the Portuguese population portioned according to both criteria.

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10 See, for example, Rodrigues and Andrade (2012) for some contributions to this debate.
Table 0.1 Monetary Poverty versus Material Deprivation (%), Portugal, 2008.

<table>
<thead>
<tr>
<th></th>
<th>Not Deprived</th>
<th>Deprived</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Poor</td>
<td>67.0</td>
<td>14.5</td>
<td>81.5</td>
</tr>
<tr>
<td>Poor</td>
<td>10.0</td>
<td>8.5</td>
<td>18.5</td>
</tr>
<tr>
<td>Total</td>
<td>77.0</td>
<td>23.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Several explanations can be offered for this divergence between the poverty and material deprivation criteria. One, which applies at least to households that are poor but not deprived, derives from the fact the poverty at risk rate is defined only in monetary terms and does not include the total income of the households. Given that non-monetary income represents about 20% of their total resources, it is easy to see that some households will change their relative position in the income scale when either definition of income is used.

Figure 3.6 illustrates somehow this: of the ‘at risk of poverty’ households in 2010, at the most ‘only’ 47.2% were materially deprived and at the least 22.2% were severely materially deprived.

Figure 0.6 Material deprivation among households at risk of poverty, Portugal, 2004–2010.

Source: Eurostat (EU-SILC).

Those that are simultaneously at risk of poverty and materially deprived are defined as consistently poor. From Figure 3.7 it is clear that this rate has decreased marginally over the 2004/10 period (9.2% to 8.5%). A stronger signal is given by the rate using the severe material deprivation concept – it has decreased consistently from 5.4% to 4.0%.
GINI Country Report Portugal

Figure 0.7 Consistent Poverty, Portugal, 2004–2010.

![Graph showing population at risk of poverty and severely materially deprived](image)

Source: Eurostat (EU-SILC).

Figure 0.8 People at risk of poverty or social exclusion, Portugal, 2004–2010.

![Graph showing at risk of poverty, severely materially deprived, living in a household with low work intensity, and at risk of poverty or social exclusion](image)

Source: Eurostat (EU-SILC).

Figure 3.8 summarises the broader concept of ‘at risk of poverty or social exclusion’. This rate decreased very slightly over the period (from 26.1% to 25.2%) following the already discussed decreases in the ‘at risk of poverty’ and ‘severe material deprivation’ rates. However, its third component, ‘living in a household with low work intensity’ has increased since 2008 and impacted negatively on the final rate. Figure 3.9 reports the ‘at risk of poverty and social exclusion’ rate by age group. The largest decrease is observed in the elderly (35.2% to 26.1%), again underlining the success of the social policies aimed at the elderly poor. The increase in this rate for the younger age group between 2006 and 2008 was subsequently reverted, though it is still the highest. Actually, from 2008
all age groups have recorded a parallel decrease. Finally, in Figure 3.10, the level of education attained has the expected relation with the ‘at risk of poverty and social exclusion’ rate: the lowest level group has the highest values, and vice-versa, the highest education has the lowest. All groups had a similar ‘open U shape’ evolution over the period of analysis.

**Figure 0.9 People at risk of poverty or social exclusion by age group, Portugal, 2004–2010.**

![Graph showing the percentage of people at risk of poverty or social exclusion by age group in Portugal from 2004 to 2010.](image)

Source: Eurostat (EU-SILC).

**Figure 0.10 People at risk of poverty or social exclusion by education (population aged 18 and over), Portugal, 2004–2010.**

![Graph showing the percentage of people at risk of poverty or social exclusion by education level in Portugal from 2004 to 2010.](image)

Source: Eurostat (EU-SILC).
3.4 Indicators of social cohesion

A key indicator of social isolation is the inability of getting help when needed from family or/and friends. Table 3.2 explores data on the frequency of meeting (getting together) or contacting (remote or cyber contact) family and friends not living at the same address. Portuguese, like most Southern Europeans, have strong family ties: 38.5% meet relatives daily plus an extra 34.5% meet them every week; and strong friendships: 44% and 32.5%, respectively. Remote contact is less frequent than personal contact, and is more frequent with relatives than friends, particularly on a weekly basis. However, the behaviour of the younger age group considered in the data (16-17 year olds) (not reported in Table 3.2) is rather specific: 83.1% said they met their friends every day and 66.0% (cyber) contacted them also every day.

<table>
<thead>
<tr>
<th></th>
<th>Meeting Relatives</th>
<th>Meeting Friends</th>
<th>Remote Contact Relatives</th>
<th>Remote Contact Friends</th>
</tr>
</thead>
<tbody>
<tr>
<td>No relatives</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Daily</td>
<td>38.5</td>
<td>44.0</td>
<td>28.2</td>
<td>27.5</td>
</tr>
<tr>
<td>Every week (not every day)</td>
<td>34.5</td>
<td>32.5</td>
<td>35.4</td>
<td>27.8</td>
</tr>
<tr>
<td>Several times a month (not every week)</td>
<td>11.0</td>
<td>9.2</td>
<td>14.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Once a month</td>
<td>6.9</td>
<td>7.4</td>
<td>9.7</td>
<td>10.1</td>
</tr>
<tr>
<td>At least once a year (less than once a month)</td>
<td>7.5</td>
<td>2.9</td>
<td>6.2</td>
<td>8.4</td>
</tr>
<tr>
<td>Never</td>
<td>1.3</td>
<td>4.0</td>
<td>5.6</td>
<td>13.6</td>
</tr>
</tbody>
</table>

*Source: Eurostat (EU-SILC 2006).*

**Figure 0.11 Frequency of meeting or contacting friends and relatives (at risk of poverty or not at risk), Portugal, 2006.**

*Source: Eurostat (EU-SILC 2006).*
Figure 3.11 reports the frequency of contacts by poverty risk and in a more aggregated way: either ‘several times a month’ (daily, weekly, and several times a month) or ‘once a month or less’ (once a month, at least once a year, and never). Those at risk of poverty contacted their relatives, and particularly their friends, less regularly than those not at risk. There is no such clear difference in terms of regularly meeting either relatives (84.7% versus 81.0%) or friends (86.7% versus 80.9%) than in remote contacting them, perhaps reflecting also a cost/expenses concern. Furthermore, the “Ability to ask any relative, friend or neighbour for help” was lower for those at risk of poverty (90.7%), than for those not at risk (92.8%).

A different measure of social cohesion is given by the participation in voluntary social activities as reported Figure 3.12. It is quite clear that although Portuguese keep strong regular social contacts with their relatives and friends, they do not participate as much in social groups or organisations. By far the most significant, 45.9% of those ‘at risk of poverty’ and 42.4% of those ‘not at risk’ participate in religious activities, with a stronger impact in the 65+ age group (47.5%). ‘Helping others’, which includes informal help like looking after people at home or in hospital, cooking or going shopping for them, is more popular with those ‘not at risk of poverty’ and with the younger than the older. There is little participation in ‘political parties or trade unions’, ‘professional associations’, ‘recreational groups or organisations’, or ‘charitable organisations’, and even less by those ‘at risk of poverty’. The only exception is provided by the high participation of 16-17 year olds in recreational groups (22.2%), hopefully aimed at their age and specific interests.

Figure 0.12 Participation in voluntary activities by selected groups, Portugal, 2006.

Source: Eurostat (EU-SILC 2006).
3.5 Family formation and breakdown, lone parenthood, fertility – including implications for gender inequalities

As shown in Table 3.3, the average Portuguese household size has decreased from 3.2 people in 1997 to 2.7 in 2010. This decrease has been driven mainly by the increase in single person households (up from 13% to 17.7%) and the decrease in households with dependent children. The number of households with one dependent child has actually increased, but the number of larger households with dependent children, particularly the extended families ‘three or more adults with dependent children’, has decreased considerably.

Table 0.3 Household Composition, Portugal, 1997–2010.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single person</td>
<td>13</td>
<td>12</td>
<td>16.6</td>
<td>17.0</td>
<td>17.7</td>
</tr>
<tr>
<td>Single person with dependent children</td>
<td>2</td>
<td>2</td>
<td>3.1</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Two adults</td>
<td>22</td>
<td>22</td>
<td>25.8</td>
<td>27.1</td>
<td>28.5</td>
</tr>
<tr>
<td>Two adults with one dependent child</td>
<td>13</td>
<td>12</td>
<td>15.2</td>
<td>15.9</td>
<td>14.5</td>
</tr>
<tr>
<td>Two adults with two dependent children</td>
<td>14</td>
<td>13</td>
<td>11.9</td>
<td>11.0</td>
<td>10.3</td>
</tr>
<tr>
<td>Two adults with three or more dependent children</td>
<td>3</td>
<td>5</td>
<td>2.1</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Three or more adults</td>
<td>17</td>
<td>19</td>
<td>15.2</td>
<td>14.3</td>
<td>14.7</td>
</tr>
<tr>
<td>Three or more adults with dependent children</td>
<td>15</td>
<td>15</td>
<td>10.1</td>
<td>9.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Households without dependent children</td>
<td>52</td>
<td>53</td>
<td>57.6</td>
<td>58.4</td>
<td>60.9</td>
</tr>
<tr>
<td>Households with dependent children</td>
<td>48</td>
<td>47</td>
<td>42.4</td>
<td>41.6</td>
<td>39.1</td>
</tr>
<tr>
<td>Average household size</td>
<td>3.2</td>
<td>3.3</td>
<td>2.8</td>
<td>2.8</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Eurostat (ECHP, EU-SILC).

Figure 0.13 Marriage and divorce, Portugal, 1980–2010.

Source: INE Statistics Portugal and Ministry of Justice.
The main factors contributing to this situation are the decrease in the marriage rate, the increase in the divorce rate, and the decline of both birth and fertility rates. All these will be discussed in detail below. Starting with the marriage rate, its decrease can be seen in Figure 3.13, particularly discernible since 2000 (6.8‰ in 1999 versus 3.8‰ in 2010). Divorce was only legalised in 1974, and its rate has increased particularly since the middle of the 1990s to 2.6‰ in 2010 (peak of 2.7‰ in 2002). As a result, there was a surprisingly number of 68.9 divorces per 100 marriages in 2010.

More worryingly, the birth rate has decreased considerably (16.2‰ in 1980 to 9.2‰ in 2011), together with an increase in the mother’s average age (30.6 years in 2010) and average age at the birth of the 1st child (28.9 years also in 2010), as reported in Figure 3.14. The following figure explores the fertility rate by age groups and shows its decline in women in their 20s, particularly the 20-24 age group, reflecting the higher proportion of women in higher education and following their own careers. This decline has not been compensated by an increase in the fertility rate of women in their 30s, leading to worries about the ageing of the Portuguese population, and explains the decrease in the percentage of households with children and the decrease in the number of pupils enrolled in the lower levels of education discussed earlier.

Figure 0.14 Birth rate and average age of mother, Portugal, 1980–2010.

Source: INE Statistics Portugal and Ministry of Justice.
Figure 0.15  Fertility rates by mother’s age group and average age of mother at birth of 1st child, Portugal, 1980–2010.

Source: INE Statistics Portugal and Ministry of Justice.

The increase in ‘single person with dependent children’ households already detected can be related not only to the increase in divorces, but also to the increasing percentage of newborn babies born to unmarried parents not in co-habitation given in Figure 3.16: 10.9% of all 2011 newborns.

Figure 0.16  Percentage of newborn babies born to unmarried parents, Portugal, 1980–2010.

Source: INE Statistics Portugal and Ministry of Justice.
3.6 Health inequalities with objective and self-reported

The life expectancy at birth in Portugal increased significantly from 71.7 years in 1980 (men: 67.8 and women: 74.8) to 79.5 in 2010 (76.4 and 82.3, respectively) as shown in Figure 3.17. An important factor was the sharp continuous decrease in the infant mortality rate (<1 year olds): from 24.3‰ to 3.6‰ in 2009 (and 2.5‰ in 2010, but methodology has changed).

Figure 0.17 Mortality rate, Infant Mortality rate and Life Expectancy at birth, Portugal, 1980–2010.

Source: INE Statistics Portugal.

The mortality rate hovered around 10‰ throughout the period, but there were notable changes in the main causes of death of the Portuguese population, as described in Figure 3.18. There was an important decrease in deaths caused by circulatory system diseases (from 424.4 per 100,000 in 1980 to 317.7 in 2010), the main cause of death of the Portuguese population. However, there was an increase over the same period of deaths caused by tumours (235.0 in 2010) and respiratory diseases (111.0 in 2010).

Nevertheless, the Portuguese are not very happy about their health, as can be judged from the self-reported health status included in the two National Health surveys (INS) of 1998/99 and 2005/06 and reported in Figure 3.19. The percentage of Portuguese reporting their health status as ‘good’ or ‘very good’ is low, though it increased from 47.0% in 1998/99 to 53.2% in 2005/06; those that consider it ‘bad’ or ‘very bad’ decreased from 16.5% to 14.1%. Women’s more pessimistic view comes across very clearly from Figure 3.19: 20.8% and 17.5% considered their health as bad or very bad in each survey, still the decrease has to be appreciated.
GINI Country Report Portugal

Figure 0.18 Deaths by main causes, per 100,000 inhabitants, Portugal, 1980–2010.

Source: INE Statistics Portugal and Ministry of Health.

Figure 0.19 Self-reported health status by gender, Portugal (mainland), 1998–2006.

Source: National Health Survey (INS) 1998/99 and 2005/06.
The factors that make a significant difference to the self-reported health status are gender and age group. Clearly, as people get older they have, on average, more (and more serious) health problems and therefore Figure 3.20, which reports only 2005/06 data, comes as no surprise: the highest bars for ‘good or very good’ decrease from the left (<15 year olds) to the right (85+) being replaced by the ‘bad or very bad’. The ‘acceptable’ category has increased its relative presence in the older ages in the 2nd survey, a result which was reflected in the aggregate improvement of the self-reporting already discussed. Perhaps more surprising is that the proportion of women of all age groups except <15 reporting ‘good or very good’ is smaller (and increases with age) than that of men of the same age group, and vice-versa for the ‘bad or very bad’.

Figure 0.20 Self-reported health status by gender and age group, Portugal, 2005/06.

Another often used health indicator is the Body Mass Index (BMI)\(^{11}\) which has the advantage of being easy to calculate but, as it relies solely on the information provided by the respondent, can be notoriously unreliable. The proportion of Portuguese that answered that they were ‘obese’ (BMI≥30Kg/m\(^2\)) increased from 12.0% to 15.2% between the two surveys, women more than men (women: 13.0% to 15.9%), as shown in Figure 3.21. However, women are also much more likely to answer that they were ‘underweight’ (BMI<18.5Kg/m\(^2\)) than men.

\(^{11}\) BMI = mass (in Kg) / (height (in metres))^2.
Figure 0.21 BMI by gender, Portugal (mainland), 1998–2006.

Source: National Health Survey (INS) 1998/99 and 2005/06.

Figure 3.22 reports the BMI in 2005/06 by gender and age groups: it is the younger (particularly women) that are more likely to answer that they have a ‘normal weight’ (and also to be ‘underweight’) plus the very oldest age groups. The weight problems affect mostly the middle aged groups: in 2005/06, over 46% of the men between 45.64 years answered they were ‘overweight’, and 24% of women in the 55.74 age group answered that they were ‘obese’.

Figure 0.22 BMI by gender and age group, Portugal, 2005/06.

Source: National Health Survey (INS) 2005/06.
The 2005/06 National Health Survey includes data on self-reported diseases: ten of the most prevalent ones are reported in Figure 3.23. Mostly the self-reported ailments are associated with old age: high blood pressure, rheumatism, chronic pain, or particularly old age women such as osteoporosis. Many are reported by men and women in the same degree, such as diabetes, kidney stones or emphysema/bronchitis, whereas depression and anxiety are much more reported by women. The picture that these Figures give is of a not very (self-reporting) healthy older population.

Figure 0.23 Proportion of population by self-reported diseases by gender and age group, Portugal (mainland), 2005/06.

Source: National Health Survey (INS) 2005/06.

The 2005/06 survey also includes data on the self-reported psychological condition of the Portuguese using the Mental Health Inventory MHI-5\textsuperscript{12}. Of the total population aged 15 and above, 27.2%, or 17.3% of the men and 36.3% of the women, have scores ≤52, and are therefore considered at risk of psychological problems, as reported in Figure 3.24.

\textsuperscript{12} Of the five items/questions included in MHI-5, three belong to the ‘psychological distress scale’ (anxiety, depression and loss of behavioural/emotional control) and two to the ‘psychological well-being scale’ (general positive affect). A score of 52 or below indicates “probable psychological suffering”. The full length MHI includes 18 items.
GINI Country Report  Portugal

Figure 0.24 Potential psychological problems (MHI-5≤52) by gender and age group, as % of total population, Portugal, 2005/2006.

Source: National Health Survey (INS) 2005/06.

Figure 0.25 Potential psychological problems (MHI-5≤52) by gender, age group, and working condition, Portugal, 2005/2006.

Source: National Health Survey (INS) 2005/06.

In Figure 3.25 the gender, age and working status of those at risk are explored. Half of the men who are affected are in active employment and 35% are retired. An important percentage of the women at risk are housewives, particularly in the 45.55 and 55.64 age groups. Being a student is significant only in the youngest age group (18-24 year olds), more so for women.
3.7 Housing tenure, esp. for lower-income households, and changes in the role of housing in the wealth distribution

Most Portuguese households own the house they live in (as discussed above) and a growing percentage have a 2nd home Figure 3.26 using census data).

Figure 0.26 Proportion main and 2nd home and proportion of owned or rented main home, Portugal, 1981–2011.

![Graph showing the proportion of main and 2nd homes and proportion of owned or rented main homes in Portugal from 1981 to 2011.]

Source: INE Statistics Portugal – census.

Table 0.4 Housing costs, Portugal, 2004–2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>Median of Housing costs burden</th>
<th>1st quintile</th>
<th>2nd quintile</th>
<th>3rd quintile</th>
<th>4th quintile</th>
<th>5th quintile</th>
<th>all</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>17.1</td>
<td>3.0</td>
<td>1.2</td>
<td>1.7</td>
<td>0.3</td>
<td>4.7</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>10.5</td>
<td>16.1</td>
<td>3.0</td>
<td>1.2</td>
<td>0.3</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>8.4</td>
<td>13.0</td>
<td>5.0</td>
<td>2.5</td>
<td>1.8</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>10.3</td>
<td>21.2</td>
<td>9.6</td>
<td>4.3</td>
<td>1.5</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>12.8</td>
<td>20.5</td>
<td>10.5</td>
<td>3.2</td>
<td>3.0</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>11.7</td>
<td>20.2</td>
<td>6.5</td>
<td>2.4</td>
<td>0.9</td>
<td>6.1</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>10.4</td>
<td>15.2</td>
<td>2.9</td>
<td>2.2</td>
<td>0.6</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>11.7</td>
<td>24.8</td>
<td>6.6</td>
<td>3.7</td>
<td>0.8</td>
<td>7.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat (EU-SILC).

The EU-SILC dataset has information on housing costs: Table 3.4 shows the median housing costs burden and housing costs overburden rate of Portuguese households in the 2004/11 period. The former indicates the share of annual housing costs on disposable income and the latter is the percentage of the population living in households where the median burden represents more than 40% of disposable income.
The strong relationship between housing costs and income distribution is clear when the housing costs overburden rate is analysed: the percentage of families in the 1st decile with an excessive burden is three to four times that of the whole population. The evolution of the rate is irregular, but there is a clear tendency for it to increase in the lower deciles of the distribution.

### 3.8 Crime and punishment: crimes related to property, crimes of violence (distinguishing homicide) and imprisonment rates

The number of offences recorded by all police forces in Portugal over the period 1998-2011 varied between 33.7‰ and 39.0‰, with a relative maximum of 40.0‰ in 2003 and an absolute one of 40.8‰ in 2008, as seen in Figure 3.27. The most common type of recorded criminal offences are those ‘against property’ (thefts/burglaries) with 21.5‰ in 2011, of which those associated with motor vehicles (5.4‰) and ‘muggings’ (1.5‰) are the most significant. Of all crimes ‘against people’ the most significant is ‘assault’ with 5.7‰ in 2001, ‘against society’ is ‘driving under the influence of alcohol’ ¹³, hereafter ‘drink drive’, with 2.2‰, and ‘under other legislation’ is ‘driving without a valid licence’ with 1.6‰.

Figure 0.27 Criminal offences per 1000 population, Portugal, 1998–2011.

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¹³ Driving under the influence of alcohol is an offence penalized by a fine if the driver’s blood alcohol level is found to be between 0.5 and 1.2g/l, but becomes a criminal offence if that level is equal to 1.2g/l or more.
The Portuguese ‘intentional and negligent (excluding traffic accidents)’ homicide rate per 1,000 population decreased from 0.045‰ in 1998 to 0.017‰ in 2010, as shown in Figure 3.28. The same rate for ‘negligent homicide in traffic accidents’ was higher, but falling from 0.135‰ to 0.056‰ over the same period.

**Figure 0.28 Homicides per 1,000 population, Portugal, 1998–2011.**

![Graph showing homicide rates per 1,000 population from 1998 to 2010 for Portugal.](image)

Source: INE Statistics Portugal.

**Figure 0.29 Convicted Prison Population per 1,000 population by type of crime, Portugal, 1993–2010.**

![Graph showing convicted prison population by type of crime from 1993 to 2010 for Portugal.](image)

Source: DGPJ/Ministry of Justice.
GINI Country Report Portugal

Figure 3.29 shows that the prison population\textsuperscript{14} increased up to 1998, then had an abrupt drop, but picked up to about the same level in 2003, and has continued without very substantial changes, rising again recently. A substantial part is explained by the evolution of the number of convicts for offences against property, which has kept decreasing since 1998, and of the other biggest group of convicts in prison, those for offences related to drugs. The latter has decreased largely due to a change in the law that has decriminalised drugs consumption (Law 30/2000 of 29th November, enforced from June 2001). The overwhelming majority of convicts are male: 94.6% in 2010.

In 2010 there were 0.875 convicts in prison per 1,000 population, mostly for offences against property (0.242‰) and people (0.234‰). In 1998, the highest point, there were 1.02‰ in total, 0.431‰ against property and 0.384‰ drugs related.

In Figure 3.30, the level of education of the convicted prison population is low: in 2010, 4.7% couldn’t read and write and 4.6% could only read; 77.3% had attained ISCED1+2; 11.3% had attained ISCED3, and 1.2% had attained ISCED5. The proportion of the number of convicts who attained ISCED3 has actually decreased in the early 2000s.

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\textsuperscript{14} The data used refers to the convicted prison population in each year (‘stock’ concept). It excludes pre-trial detention and juvenile institutions population.
By age group in Figure 3.31, the prison population has got older: people aged 25+ represented 81.0% of the prison population in 1998 and 87.2% in 2010; those aged 40+ increased from 21.4% to 36.0% over the same period. The proportion of 16-18 year olds fell from 1.66% (corresponding to 243 people) to 0.76% (88 people), and that of 19-24 fell from 17.3% to 12.1% over the same period.

### 3.9 Subjective measures of well-being, satisfaction, “happiness”

The main source of information is the Eurobarometer bi-annual survey which includes questions on how the respondents feel about life, their country and the EU. It is very clear from Figure 3.32 that the Portuguese are not very happy with their life: on average over the period data is available for (November 1985-May 2012) only 4.95% of the Portuguese respondents were ‘very satisfied’, whereas 8.95% were ‘not very satisfied’, much lower than the EU average. However, from the late 1990s the feeling has worsened considerably until the present lows.

The Portuguese are much more pessimist than the EU as a whole, as can be compared visually Figure 3.33 where the aggregate ‘very and fairly satisfied’ (or dark blue and red) has never exceeded 75% of the respondents, and has been virtually always below 60% ever since 2001. However, it should be emphasised that the percentage of ‘very satisfied’ respondents only exceeded 8% once. Furthermore, since 2003 the percentage of respondents that were ‘not at all satisfied’ has always been above 9% to a maximum of 23% in 2012 (average 11.5% in 2003.12). Nothing similar has occurred in the EU, where in 2011 21% of the respondents were ‘very satisfied’ and only 6% were ‘not at all satisfied’, without much variation being observed over the period (lines in the graph fairly
horizontal). More strikingly, the Portuguese were already frankly pessimistic before the start of the current financial crisis.

Figure 0.32 Eurobarometer - Are you... with the life you lead?, Portugal, 1985–2011.

The same idea is conveyed by the answer to the Eurobarometer question about future (short-term) expectations about life in Figure 3.34: since 2003, more people expected life to get worse than to get better (with a small and short exception in two surveys, September 2006 – May 2007), and with a considerably widening ‘pessimistic’ gap.

What causes this Portuguese pessimism? In the Eurobarometer survey the respondents can choose which they consider to be the two most important issues affecting their country. Over the period 2003-2012 these have consistently been related to the economic situation: the most important has always been unemployment, followed by either the economic situation in general or inflation. All the issues that were ever picked by at least 10% of the respondents are included in Figure 3.35 and they give a picture of clear bias towards the economic situation, and this well before the financial crisis. Even security issues like crime (chosen by only 8% of the respondents in 2012), terrorism, education or the environment virtually did not register as main concerns. Even before the economic situation turned, Portuguese expectations were not positive at all. What worries Portuguese most is the economy: ‘unemployment’, ‘economic situation’, ‘rising prices/inflation’ dominate their preoccupations. Again these worries were already there in 2003.
Figure 0.33 Are you... with the life you lead? Portugal (above) and EU average (below), 1985–2001.

Source: Eurobarometer.
Figure 0.34 What are your expectations for the year to come... about your life in general, Portugal, 1995–2012.

Source: Eurobarometer.

Figure 0.35 What do you think are the two most important issues facing our country at the moment? (choose two), Portugal, 2003–2012.

Source: Eurobarometer.

A final view is given in Figure 3.36 by how the Portuguese think they compare with the rest of the EU. Here, most unfortunately, the pessimism mixes with a clear (historical) sense of inferiority: the percentage of respondents that considered the situation of Portugal worse than the EU average ('somewhat or definitely less good') varied between 84% and 90% over the whole period for which there is data available.
Figure 0.36 Would you say the situation of the national economy is better or less good than the average of the EU countries?, Portugal, 2005–2012.

Source: Eurobarometer.

3.10 Conclusions: Appraisal of the interdependence and the ‘national story’ of inequality drivers and their social impacts.

Wilkinson and Picket (2009) suggest that an increase in inequality has a negative impact on different social indicators. The analysis in this chapter does not completely validate this statement, as there is no clear indication of a direct relationship between the evolution of inequality and the portfolio of indicators used to ascertain the social situation of the Portuguese population.

Two facts make it particularly difficult to establish a causal relationship between inequality and the social indicators throughout this period in Portugal: one is that the inequality levels remained particularly high compared to the rest of the EU countries; the other is that the equivalised real disposable income increased for all economics groups, though at different rates. Although no direct relationship can thus be established, a summary of the main trends is presented in Table 3.5.
Table 0.5  Trends in Inequality and select indicators of social impact, Portugal, 1990–2010.

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<tr>
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<tbody>
<tr>
<td>HBS – Total Income</td>
<td>↗</td>
<td>↔</td>
<td>↘</td>
<td>↘</td>
</tr>
<tr>
<td>HBS – Monetary Income</td>
<td>↗</td>
<td>↗</td>
<td>↗</td>
<td>↘</td>
</tr>
<tr>
<td>At Risk of Poverty Rate</td>
<td>↗</td>
<td>↘</td>
<td>↘</td>
<td>↘</td>
</tr>
<tr>
<td>Severe Material Deprivation</td>
<td></td>
<td></td>
<td>↔</td>
<td></td>
</tr>
<tr>
<td>Population at risk of poverty and severely materially deprived</td>
<td></td>
<td></td>
<td>↘</td>
<td></td>
</tr>
<tr>
<td>Population at risk of poverty and social exclusion</td>
<td></td>
<td></td>
<td>↘</td>
<td></td>
</tr>
<tr>
<td>Crime rates</td>
<td></td>
<td></td>
<td>↗</td>
<td>↔</td>
</tr>
<tr>
<td>Fertility rates</td>
<td>↘</td>
<td>↗</td>
<td>↘</td>
<td>↘</td>
</tr>
<tr>
<td>Life expectation</td>
<td>↗</td>
<td>↗</td>
<td>↗</td>
<td>↗</td>
</tr>
</tbody>
</table>
Political and cultural impacts

The aim of this chapter is to analyse whether living in a society with high inequality levels compared to the EU average influences the attitudes and perceptions of the Portuguese. Does it affect their attitude towards the political system and institutions, or their view of the democratic system, social state and European integration, or how do they evaluate the social problems, interactions and relationships, and the challenges they face in the modern world? Particular emphasis will be placed on the analysis of the perception people have of the inequality levels themselves, and the need for reducing them.

4.1 Political and civic participation

Measured by the abstention rate in general elections, political participation in Portugal has decreased considerably over the years. Figure 4.1 shows that the abstention rate has increased from 8.3% in 1975, the 1st free elections after 48 years of dictatorship, to over 40% in recent elections. The level of abstention is similar, except for the European Parliament and some Presidential elections. The 1st European Parliament elections were held simultaneously with national parliamentary elections and recorded an abstention rate well below that of subsequent elections. The higher abstention rate in some Presidential elections reflected the fact that those were for the 2nd mandate of the incumbent President who was always expected to be re-elected.

Figure 0.1 Abstention rate in General Elections, Portugal, 1975–2011.

Source: CNE, National Electoral Commission.
4.2 Trust in others and in institutions

The trust the Portuguese place on their institutions is not high according to the results of the Eurobarometer surveys. Less than half of the respondents tend to trust Parliament, Government or the political parties (Figure 4.2, Figure 4.3 and Figure 4.4). The latter are, by far, the most distrusted, a damaging verdict by their potential electorate. Parliament is more trusted (or, better, less distrusted), but still well below 50% of the Portuguese tend to trust it. The small spikes seem to correspond to the traditional post-electoral ‘honeymoon period’.

Figure 0.2 National Parliament, Portugal, 2003–2012.

Source: Eurobarometer.

Figure 0.3 National Government, Portugal, 2003–2012.

Source: Eurobarometer.
The (growing) untrustworthiness of the Portuguese Justice/legal system in Figure 4.5 is not surprising: it is seen as a very slow, difficult and inefficient system, with some very high profile controversial cases in recent years. This extra media exposure and connection with the political system possibly eroded the trust Portuguese had in it even further. Finally, and perhaps surprisingly, Figure 4.6 reports a positive level of trust in the Police, though it has suffered from its fair share of recent media cases. It is the only institution that the Portuguese trust more than not, and by quite a margin.
Sedes (2009) survey follows the “Democracy Barometer for Established Democracies” approach to investigate the perceptions of the Portuguese about the quality of their democratic regime. It should be emphasised that the survey was carried out in March 2009, and therefore the results will be affected by the current economic crisis.

The negative views of the Portuguese about their democratic institutions, already detected in all Eurobarometer surveys, are confirmed and analysed in more detail. The majority of the respondents do not agree that the judicial system treats everyone equally: 79% of them believe it favours the politicians and 82% the wealthy. The responsiveness of the political system is also lacking: 75% of the respondents do not agree that either “politicians are concerned with what people ‘like me’ think” or “those in power do not always seek to further their own personal interests”, 73% do not agree that “people ‘like me’ can influence government policy”, and 60% do not agree that “those in governing bodies often take into account the opinions of the citizens/electorate”. Finally, 51% of the respondents are either not or little satisfied with democracy, 37% are somewhat satisfied, and only 11% are very or totally satisfied. When asked which are the (two) fundamental characteristics of a democratic system, 49% chose the economy “an economic system that ensures a fair plentiful income for everyone” and 38% justice “a justice system that treats everyone equally”; the political aspects (responsiveness, regular elections, political participation) were chosen by only between 31% and 14% of the respondents.
4.3 Political values and legitimacy

All in all, according to the Eurobarometer survey results reported in Figure 4.7, the Portuguese attitude towards the EU has been clearly positive since the country joined in 1.1.1986, and the Portuguese still approve of their EU membership (39% in 2011). Until recently, the evolution in ‘a good thing’ opinion was more or less symmetric to that in ‘neither good nor bad’, together with a fairly subdued percentage of ‘a bad thing’ virtually never above 10%. However, over the last few troubled years, the latter opinion has increased substantially (to 26% in 2011), eating away at ‘a good thing’, but also at the undecided. This seems to reflect a more partisan attitude by the people interviewed, and has narrowed the ‘approval gap’ considerably since 2006.

Figure 0.7 Do you think your country’s membership of the EU is...?, Portugal, 1986–2012.

Source: Eurobarometer.

4.4 Values about social policy and welfare state

The Portuguese strongly support social policies, and more so than the average EU citizen. According to Table 4.1, almost 60% of the Portuguese agree totally (more than 90% also considering the ‘tend to’ answers) that poverty is a problem that needs urgent action by the government and that income differences are far too large. A slightly lower percentage, close to 50%, agrees totally with wealth redistribution and higher taxes for the wealthier (again around 90% when the 2nd ‘tend to’ answer is considered). Finally, and perhaps less coherent with the previous answers, 9% agree totally that income inequality is necessary for economic development (36% if ‘tend to’ is considered).
Table 0.1 General views about poverty and inequality, Portugal and EU 27, 2010.

<table>
<thead>
<tr>
<th></th>
<th>Portugal</th>
<th>EU 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty in (OUR COUNTRY) is a problem that needs urgent action by the Govern:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally agree</td>
<td>59</td>
<td>53</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Nowadays in (OUR COUNTRY) income differences between people are far too large:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally agree</td>
<td>58</td>
<td>52</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>The (NATIONALITY) Government should ensure that the wealth of the country is redistributed in a fair way to all citizens:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally agree</td>
<td>45</td>
<td>47</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>47</td>
<td>38</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>People who are well-off should pay higher taxes so the Government has more means to fight poverty:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally agree</td>
<td>48</td>
<td>45</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>41</td>
<td>34</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Income inequalities are necessary for economic development:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally agree</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>Tend to agree</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>Tend to disagree</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>Totally disagree</td>
<td>30</td>
<td>19</td>
</tr>
</tbody>
</table>


More than half of the Portuguese ‘tend to trust’ NGOs or charities (60%), religious institutions (59%), and the citizens themselves (51%) “with regard to their action combating poverty”. Of the political institutions, 48% of the Portuguese ‘tend to trust’ the EU action, but only 26% ‘tend to trust’ their own national government.

Some of these results are quite different from the EU27 average, particularly the greater trust in the EU and religious institutions, and smaller trust in both the national government and the citizens themselves. Furthermore, there was a decrease in all these answers compared with the previous survey in 2009, the largest decrease being in the national government (16 percentage points) and the citizens themselves (9 points).
Immigration

A recent study by Lages et al. (2006) about Immigration in Portugal is based on a 2002 survey and gives an in depth account of what the Portuguese think and how they accept migrants. The question “Do you agree with the arrival of more immigrants in our country?” led to a strong negative response, independently of the country/area of origin of the immigrants, whether African (74.4%), Brazilian (71.7%) or Eastern European (73.4%). However, the answers are influenced by the educational level attained by those questioned: those with lower level (ISCED 1) disagree more than those with tertiary level education (ISCED 5+6), irrespective of the nationality of the immigrants. Age is also a factor: older people disagree more with the arrival of more immigrants, and the youngest record a larger percentage of favourable answers.

Although only about a quarter of the Portuguese agree with the arrival of more immigrants, most people have a very positive attitude about the rights of immigrants: 97.2% agree that legalised immigrants should have the same rights as the Portuguese have abroad, 93% that they should be entitled to be re-joined by their families, and 84% that the naturalization process should be made simple. In the case of illegal immigrants, 79.7% of those asked answered that the process of legalisation should be made easier.

This favourable attitude to the rights of immigrants is confirmed by the Portuguese scores in the MIPEX III index (2007, 2010), an index that analyses the existing migrant integration policies and their implementation in several countries. The index is divided into seven themes and Portugal comes in 2nd place (only behind Sweden) with overall scores of 76% and 81% in 2007 and 2010, respectively. Strong positive points are labour market mobility (94% score in 2010), family reunion (91%), anti-discrimination (84%), and access to nationality (81%) policies, whereas education (63%), long term residence (69%), and political participation (70%) show the lowest scores, yet all significantly above the EU average.

Social Climate Index

Since 2009 the Eurobarometer publishes an index that summarises the perceptions of the population of each EU country about a vast set of items, and enables an ordering of the countries according to their current social climate. Although this social climate index does not allow for a direct comparison with the past evolution of inequality in Portugal (for which definitive data is only available until 2009), it enables the evaluation of the perceptions of the Portuguese, immersed in a deep economic and social crisis since 2010, about the impact of the crisis and the policies that have been implemented to it, in particular those connected with inequality and social exclusion.
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The social climate index is calculated from the answers to two questions: one about how satisfied people are with life in general and the other on how they judge the current situation in 14 different areas (listed in Figure 4.8) grouped into ‘personal circumstances’, ‘national picture’ and ‘social protection and inclusion’. The four possible answers to each of the 15 questions are transformed into a single value (score). A value of (or close to) zero in any score reflects neutrality with respect to that aspect.15

Figure 0.8 Social Climate Index – Eurobarometer, Portugal, 2009–2012.

The Portuguese social climate as measured by this index is not good news: the overall index varied between -2.3 in 2009 (ranked 22nd amongst the EU countries) and -3.2 in 2012 (24th). The only positive score is for the ‘area people live’ in (yet ranked 21st in 2009 and 22nd in 2012 in the EU). During the period 2009/11, the case for neutrality, scores between -0.5 and 0.5, could only be argued for ‘life in general’ (ranked equal 22nd in 2009 and 25th in 2012), ‘personal job situation’ (18th and 23rd), and ‘relations between people’ (13th and 21st), but all suffered sharp declines in 2012. The most

15 See, for example, Eurobarometer, EBS 391 for a detailed description of the methodology.
negative perceptions are those of the national economic situation (23rd and 21st) and employment situation (23rd in both) with scores between -5.8 and -6.7 throughout the period.

4.5 Conclusions: Appraisal of the interdependence and the ‘national story’ of inequality drivers and their cultural and political impacts

One of the most significant finds of this chapter is the loss of trust in the national government and in the political system in general as a result of the economic crisis. This loss of trust in the main decision makers co-exists with a significant decline in the positive valuation of the advantages of EU membership, though the majority view is still positive.

The relationship between the political and cultural impacts and inequality does not come through in a direct form, but is obviously behind the attitudes and perceptions of the Portuguese population. When enquired about poverty and inequality, more than 90% of the respondents show that they are aware and concerned about the Portuguese situation and support the need for change and reduction in inequality. However, there seems to be a simultaneous complete lack of credibility in the national political institutions, particularly in the national government, and their capacity or political will to redress the situation. After decades when Portugal has consistently been one of the most unequal EU countries, the trust in public institutions is seriously dented, as revealed by the high levels of electoral abstention and the lack of trust in most public institutions. Furthermore, the current social and economic crisis, leading to a sharp increase in inequality and drop in income and living standards of the poorest population but spreading into large sectors of the middle classes, may lead to a profound change in the attitudes and perceptions of the Portuguese, as some of the results above already suggest.
Effectiveness of policies in combating inequality

5.1 Introduction

Policies adopted in Portugal in the last 20 years which explain, at least partially, the evolution of inequality in this period will be analysed in this chapter. Policies aimed at reducing inequality can take different forms and generate vast effects, both direct and indirect.

As labour income is the main component of the income of most Portuguese households, this chapter will start by analysing state intervention in the labour market, particularly the setting of the minimum wage and the structure of collective bargaining. Both have a fundamental role in wage dispersion.

The structure and parameters of the fiscal system and social expenditure play a fundamental part in the definition of the resources available to the households. An important indicator of the depth of state intervention in the economy is given by the proportion of taxes and social transfers in GDP. However, their effects on inequality depend on how progressive the fiscal system and the structure of social transfers actually are. In terms of the latter, means-tested policies aimed at the most vulnerable sectors of the population are particularly relevant, as they have an immediate effect on the incomes located in the lower part of the income distribution.

5.2 Labour income (levels/trends, policies and policy intentions/discourse)

The minimum wage was introduced in Portugal in May 1974, one of the 1st measures of the new democratic regime. In nominal terms (Figure 5.1) it has steadily increased, but in real terms (Figure 5.2) it has had a sluggish evolution, struggling to keep close to the initial value. Furthermore, in Figure 5.3, several steep decreases in its rate of variation reflect the difficult times the Portuguese economy has been, and currently is, going through.
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Figure 0.1 Nominal Minimum Wage, Portugal, 1974–2011.

Source: DGERT/MTSS.

Figure 0.2 Real Minimum Wage, Portugal, 1974–2011.

Source: DGERT/MTSS.

Figure 0.3 Rate of variation of Real Minimum Wage, Portugal, 1975–2011.

Source: DGERT/MTSS.
It is therefore not surprising that the minimum wage has decreased relatively to the average wage, as shown in Figure 5.4. Fixed initially at about 50% of the average wage, it fell below 40% since 1988, and was equal to only 37.2% of that wage in 2009.

**Figure 0.4 Minimum relative to average wages of full-time workers, Portugal, 1975–2010.**

Collective agreements remain an important part of the wage setting process in Portugal, with about 600 in operation in 2009, up from 459 in 1985. They cover more than 2.6 million workers, out of a labour force of about 5.6 million.

**Figure 0.5 Collective Agreements, Portugal, 1985–2009.**

Source: OECD Database.

Source: GEP/MTSS - Quadros de Pessoal.
5.3 Taxation (levels/trends, policies and policy intentions/discourse)

Since 1960 there has been a very significant increase in the tax burden, as given in Figure 5.6. Tax revenue as percentage of GDP increased from 6.8% to 20.1% of the GDP in 2010 (21.0% in 2007). Starting in the 1980s from a value of about 10% and well below the OECD average (as shown in Figure 5.7), the Portuguese rate increased much faster during the 1990s and equalled that average at about 19% in 2000. It has continued its upward progression, further increasing to about 23% compared to an OECD average hovering just below 20%.

Figure 0.6 Tax Revenue as percentage of GDP, Portugal, 1960–2010.

![Graph showing tax revenue as percentage of GDP for Portugal from 1970 to 2010.]

Source: INE Statistics Portugal/Banco de Portugal, Contas Nacionais Anuais (Base 2006).

Figure 0.7 Tax Revenue as percentage of GDP, Portugal and OECD, 1980–2007.

![Graph showing tax revenue as percentage of GDP for Portugal and OECD from 1980 to 2007.]

Source: OECD.
The biggest increases in Portuguese taxation (as % of GDP – see Figure 5.8) have been in taxes on ‘goods and services’ (7.6% in 1965 to 13.7% in 2006, but 12.4% in 2010), taxes on ‘income, profits and capital gains’ (3.9% in 1965 to 9.3% in 2008, but 8.6% in 2010), and in social security contributions (5.2% in 1974 to 9.0% in 2010).

**Figure 0.8 Tax Revenue by origin as percentage of GDP, Portugal, 1965–2009.**

[Graph showing tax revenue by origin as percentage of GDP from 1965 to 2009.]

Source: OECD.

Notwithstanding the sharp increase in the taxation level since the nineties, the redistributive ability of the Portuguese fiscal system is still hampered by serious problems that limit its efficacy in reducing inequality. A recent study (CEAFGEA (2008)) calculates that the informal economy represents more than 20% of GDP, and Rodrigues et al. (2012) estimate that only 75% of the households pay taxes.

The latter study analyses the redistributive impact of the fiscal system and social security contributions. Using 2009 as the reference year, by comparing the distribution of the gross and net equivalised income they find that the fiscal system leads to a reduction in the Gini coefficient of about 11%. The progressive nature of the Portuguese fiscal system can be detected in the following Figure 5.9 where both gross and net equivalised income are given for each decile of the distribution.
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Figure 0.9 Progressivity Effect of the tax system, Portugal, 2009.

Source: Rodrigues et al. (2012).

5.4 Social expenditures (levels/trends, policies and policy intentions/discourse)

Social security (hereafter SS) expenditure as % of GDP is given in Figure 5.10. It increased massively in the period following the 1974 revolution (local maximum of 7.7% in 1977, then affected by the financial difficulties and budget cuts of the late 1970s), followed by a sustained, if irregular, growth to 10.3% in 2001. A period of intense growth is observed between 2007 and 2010 (12.7% to 18%).

Figure 0.10 Social Security Expenditure and Pensions (Cash) as percentage of GDP, Portugal, 1970–2010.

Source: INE Statistics Portugal/Banco de Portugal, Contas Nacionais Anuais (Base 2006) and IGFSS/MTSS.
By type and as % of GDP, in Figure 5.11, the two biggest shares of expenditure are ‘old age’ and ‘health’, which have increased substantially from just above 3% each in 1980 to 9.2% and 6.6%, respectively, in 2007. As already discussed, the ageing of the Portuguese population has necessarily increased public expenditure in both pensions and health care, but there have also been social policy initiatives directed at the elderly to take them out of most severe poverty.

**Figure 0.11 Public Expenditure by type as percentage of GDP, Portugal, 1980–2007.**

![Graph showing public expenditure by type as percentage of GDP, Portugal, 1980–2007.]

Source: OECD SOC database.

**Figure 0.12 Public Expenditure by transfers/cash as percentage of GDP, Portugal, 1980–2007.**

![Graph showing public expenditure by transfers/cash as percentage of GDP, Portugal, 1980–2007.]

Source: OECD SOC database.

Again the comparison with the OECD average (in Figure 5.12) reveals the considerable increase in Portuguese public expenditure (either in cash or kind) since 1980, catching up with the OECD average.
quickly during the 1990s, and overtaking it, though only in terms of the cash benefits, in the noughties. Portuguese ‘benefits in kind’ are still trailing the OECD average, and diverging down from the ‘cash benefits’.

Starting in the second part of the 1990s, the implementation of specific means-tested benefits aimed at fighting poverty and social exclusion has introduced a new redistributive component in Portuguese social policy which has a direct effect on the levels of inequality. Two of the most important measures are the “Social Integration Income” (RSI) and the “Solidarity Supplement for the Elderly” (CSI).

Implemented since 1997, the aim of the RSI is to reduce extreme poverty through the reduction of poverty intensity of the most vulnerable sectors of the population. It consists of a special allowance provided by the solidarity subsystem and of a social integration programme.

The CSI, gradually introduced since 2006, has the explicit objective of reducing the incidence of poverty on older people. It consists of a special allowance for pensioners over 65 years old that guaranties an annual minimum income. Its threshold is defined at the poverty line level.

The efficacy of these two means-tested benefits in reducing inequality is calculated in Rodrigues (2009) and shown in Table 5.1 where their significant individual and aggregated effects are reported.

<table>
<thead>
<tr>
<th>Gini</th>
<th>S80/S20</th>
<th>S90/S10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Income</td>
<td>0.362</td>
<td>6.2</td>
</tr>
<tr>
<td>Base Income + CSI</td>
<td>0.358</td>
<td>-1.2</td>
</tr>
<tr>
<td>Base Income + RSI</td>
<td>0.354</td>
<td>-2.0</td>
</tr>
<tr>
<td>Base Income + CSI+RSI</td>
<td>0.351</td>
<td>-3.0</td>
</tr>
</tbody>
</table>


The equalising effect of the two measures designed to fight poverty and social exclusion is evident, particularly the RSI. Although these measures were not designed to decrease inequality, by creating significant increases in the income of the poorest households they end up generating a positive externality on inequality.

5.5 Education (levels/trends, policies and policy intentions/discourse)

Together with health and SS discussed above, the largest share of public social expenditure is education. Figure 5.13 compares their proportions in GDP and, to some extent, integrates the
demographic evolution into the analysis. Spending in all three increased massively following the 1974 revolution, with education and health booming as required by a young growing population, while SS (biggest share – pensions) growing at a much slower rate. As birth and fecundity rates fell and the population aged, education expenditure flattens and even decreases, health expenditure is probably allocated more and more to old(er) age ailments and SS increases dramatically. From being the highest, at 3.0% of GDP in 1977, education expenditure became the lowest at 5.0% in 2010. Conversely, health rose from 1.5% to 5.7% and SS from 1.1% to 6.8%. The lower rises in 2010 and decreases in 2011 are an obvious consequence of the current budget cuts.

**Figure 0.13** Public expenditure in Education, Health and Social Security as % GDP, Portugal 1972–2010.

The expenditure on educational institutions given in Figure 5.14 (differs from expenditure in education by not including expenses incurred outside the schools and universities, like on school books and stationary paid for by the pupils, for example) showed an increasing trend from 1998 to 2003 (from 5.7% of GDP to 5.9%), but it fell to 5.4% in 2004; a recovery to 5.7% in 2005 and 5.6% in 2006-7 was not sustained and it fell to only 5.2% in 2008. By level of education (Figure 5.15), there has been a sustained, if small, increase in expenditure at ISCED0 level (pre-school), but still at a low level (0.4% of GDP in 2003.08), and at ISCED5+6 (tertiary), increasing from 1.0% to 1.6%. Reflecting the decrease in their pupil numbers detected earlier, expenditure in ISCED1+2 has decreased from 3.0% (2001-03) to 2.4% (2008) and in ISCED3 (from to 1.2% to 1.0%), and further cuts have been announced (included in the current budget cuts).
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Figure 0.14 Expenditure on educational institutions as % GDP, Portugal, 1998–2008.

Source: OECD, Education at a Glance, several issues.

Figure 0.15 Expenditure on educational institutions as % GDP by level of education, Portugal, 1998–2008.

Source: OECD, Education at a Glance, several issues.
Since 1991, the number of students enroled in tertiary education that are granted financial support has increased from 5.9% to 17.1% in 2011, as seen in Figure 5.16. The evolution has been patchy, with a relative maximum of 15.3% in 1999 and values about 19% in 2006/10. The relative size of tertiary private institutions is small and their students receive less grants: in 2010, 77.7% of the students were enroled in public institutions and 18.9% had grants compared to 11.1% in private ones.

5.6 Conclusions: Appraisal of the ‘national story’ of policies affecting inequality, intended or unintended

The depreciation of the minimum wage relatively to the average wage has certainly contributed to the rise, since 1985, in wage inequality discussed in Chapter 2 above. Rodrigues (2012) suggests comparing the minimum wage with a low wage threshold (defined as 2/3 of the median wage) as an indirect way of assessing its regulating role and influence on wage inequality. The results show that in 1985 the minimum wage corresponded to 104% of the low wage threshold and that this proportion decreased steadily to about 90% in 2009.

The regulation of the labour market has been a hot political discussion topic in Portugal in recent years. According to some, the labour market was too regulated and the legislation too protective of the workers’ rights. Hence, the labour market has been gradually deregulated, with increased speed
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after the Troika agreement. The impact of these changes on wage and household inequality is so far impossible to estimate, but expected to be non-negligible.

The rise in social expenditure in the last two decades in Portugal has undoubtedly had an impact on the income distribution and inequality levels. The implementation of social policy measures designed to fight poverty and social exclusion impacted on the resources and income of the poorest households, and significantly improved their living standards, although social expenditure has a lower efficacy in Portugal than in other EU countries, as shown in Gouveia (2011). In the absence of an effective policy to fight inequality, the gap has been filled by the equalizing effect of policies designed to fight poverty; they were never designed to address inequality and thus the results have to be limited.

As the current economic and social crisis deepens, all social policies are losing ground, through both increased difficulty in access and lower benefits awarded. The substantial recent effort to increase the average level of educational qualifications of the population has also been reversed as a result of the implementation of the budget cuts. The joint impact of all these measures will inevitably result in higher inequality and, above all, increased poverty.
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