

The Making of Egalitarian Spain: Growth, Demographics, Politics and the Income Distribution, 1960-1990

La España igualitaria: crecimiento, demografía, política y la distribución del ingreso, 1960-1990

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ABSTRACT

This article provides a comprehensive picture of the evolution of the distribution of income during the economic expansion of Spain in the second half of the 20th century. It shows that, while there is a relatively stable pattern of inequality reduction from the economic takeoff of the 1960s until well after the consolidation of democracy, the causes of this pattern changed markedly across time. Demographic and economic forces, largely if not completely exogenous to government policy, affected the supply and demand conditions in the labor market during the first years of the economic boom in ways that contributed to a significant reduction of income differences. As Spain grew wealthier, however, market forces became also less egalitarian. However, the establishment of the new democratic regime brought about an important expansion of the welfare state that compensated for the worsening of the pre-fisc distribution of income. A set of social, political and institutional factors specific to Spain can help explain the commitment of democratic Spain to redistributive policies, partly responsible for the reduction of inequality in the latest period.

Keywords: inequality, income distribution, economic development, demographics, redistribution, democracy.

RESUMEN

Este artículo ofrece una panorámica de la evolución de la distribución de la renta durante el periodo de crecimiento económico en España en la segunda mitad del siglo XX. Mientras que España ha experimentado un proceso de igualación de ingresos relativamente estable desde el boom económico de los sesenta hasta la consolidación democrática, los determinantes

de este proceso no han sido siempre los mismos. Fuerzas económicas y demográficas, en gran parte exógenas a la acción del Gobierno, afectaron a las condiciones de oferta y demanda en el mercado de trabajo durante el primer periodo de expansión económica de tal forma que contribuyeron a una reducción significativa de las diferencias de renta. A medida que España se hacía más rica, sin embargo, estas dinámicas de mercado empezaron a tener efectos menos igualitarios. Sin embargo, el establecimiento de un régimen político democrático llevó a la expansión del estado del bienestar, que sirvió para compensar el empeoramiento de la distribución de ingresos antes de impuestos. Un conjunto de factores sociales, políticos e institucionales específicos de España pueden ayudar a entender el compromiso de la España democrática con estas políticas redistributivas responsables de la reducción de la desigualdad en este último periodo.

Palabras clave: *desigualdad, distribución de la renta, desarrollo económico, demografía, redistribución, democracia.*

INTRODUCTION

For the students of the relationship between the economic development and the distribution of income, the recent history of Spain is a particularly interesting case study. In the second half of the 20th century, Spain witnessed a phenomenal process of economic growth coexisting with remarkable changes in the country's political landscape. In a few decades, Spain transited from being an underdeveloped and unequal economy with a dictatorial regime to becoming a prosperous open economy with a relatively egalitarian distribution of income and a consolidated democratic state. How did inequality recede while these far-reaching economic and political changes were taking place?

This article has two objectives: to provide a comprehensive picture of the evolution of the distribution of income during the economic expansion of Spain, and to explore the determinants of these changes over time. As it will be shown, while there is a relatively stable pattern of inequality reduction from the economic takeoff of the 1960s until well after the consolidation of democracy, the causes of this pattern changed markedly across time. Demographic and economic forces, largely if not completely exogenous to government policy, affected the supply and demand conditions in the labor market during the first years of the economic boom in ways that contributed to a significant reduction of income differences. As Spain grew wealthier, however, market forces became less egalitarian. The reduction of inequality would have probably stopped had the government continued to play the marginal role it played under the dictatorship. However, the establishment of the new democratic regime brought about an important expansion of the welfare state, which offset the worsening of the pre-fisc distribution of income.

AN OVERVIEW OF THE RECENT HISTORY OF THE DISTRIBUTION OF INCOME IN SPAIN¹

In the late 1950s, faced with an untenable macroeconomic situation, Franco reluctantly let the «technocrats» in his administration to implement a comprehensive macroeconomic stabilization and liberalization program. By 1960, Spain was already registering both trade and budget surpluses, and foreign investment started to arrive in large quantities. In only one decade, per capita income doubled in real terms. The economic boom suddenly came to a halt in 1974. Between 1975 and 1985, per capita GDP grew at an average of 1.2 per cent, and the process of convergence with Europe suffered a severe backlash: by 1985 Spain's relative per capita income had returned to its 1973 level. Inflation and unemployment soared in most developed economies, but Spain singled out in the intensity and duration of these two phenomena. From 1973 to 1984, Spain did not experience a year without double-digit inflation. And in just one decade Spain went from a situation of full employment to a rate of

¹ For those interested in the description of these processes, see the series of works published by the Banco de Bilbao (later Fundación BBV) on «Renta Nacional de España y su Distribución Provincial» (Fundación BBV, 1999) and, particularly, the materials from the several seminars on «Igualdad y Distribución de la Renta y la Riqueza» held by Fundación Argentaria (see Fundación Argentaria, 1996).

unemployment of 21.9%, the highest in the OECD. Growth resumed strongly in the mid-1980s, driven by the liberalizing reforms and the increased access to markets and foreign direct investment that followed the entrance in the European Community in 1986.

How did these changes in the Spanish economy —the economic boom of the 60s, the stagnation of the mid-70s, and the resumption of growth after the mid-80s—, affect the distribution of income over time? The best source to analyze the evolution of household inequality in Spain from the 1960s onward is the series of Household Budget Surveys conducted by the INE in 1964-65, 1973-74, 1980-81 and 1990-91². Based on data from these surveys³, tables 1 and 2 present the evolution of a series of inequality indexes for the 1964-1990 period.

TABLE 1
INEQUALITY INDEXES CALCULATED FROM EPFS. OWN CONSTRUCTION
EXCEPT FOR 1963-1964. INCOME DATA

	1964-65	1973-74	1980-81	1990-91
Gini	.393	.349	.319	.314
Theil		.220	.188	.183
p90/p10 ratio		4.86	4.19	3.97
p90/p50 ratio		2.15	2.03	2.02
p50/p10 ratio		2.26	2.06	1.97

TABLE 2
INEQUALITY INDEXES CALCULATED FROM EPFS. OWN CONSTRUCTION EXCEPT FOR 1963-1964.
EXPENDITURE DATA

	1973-74	1980-81	1990-91
Gini	.359	.328	.312
Theil	.222	.182	.167
p90/p10 ratio	5.50	4.63	4.16
p90/p50 ratio	2.23	2.09	1.99
p50/p10 ratio	2.46	2.21	2.09

² The first budget survey conducted by the Instituto Nacional de Estadística was in 1964, but the microdata is not available. The only available information from that survey is from the INE Statistical Annual. The first available survey is from 1973-74, which I shall use below. These surveys gather income and consumption information of a representative sample of about 22,000 households.

³ In all the remaining empirical analysis, I use information from at the household level (the 1980-81 and 1990-91 surveys also provide information on many variables at the individual level for household members), and apply a squared root scale to adjust for different household size, which is easier to calculate for the 1973-74 survey than the widely used OECD equivalence scale. The substantive results for the second and third surveys do not change when the OECD equivalence scale is used. I also adjust for household-specific price indexes, following the procedure indicated in. I am grateful to Carlos Claudín for providing this data for the three EPFs.

Consistent with previous analysis of this data (Gradín 2002), inequality in Spain is slightly higher in consumption figures than in income ones. More interestingly, these results indicate that Spain has undergone a process of income equalization, at least since data on household income exist⁴, and suggest that the rate at which inequality is being reduced seems to be lower in the most recent periods⁵. As the changes in the percentile ratios show, the equalization of incomes affected the whole income distribution in remarkably similar ways: differences in income have been reduced both between those in the median of the income distribution and the those in the top income decile, and between those in the bottom income decile and those in the median⁶.

Data from household consumption surveys is not the only source of information to analyze the evolution of inequality in Spain. Prados de la Escosura (2008) has estimated historical series of Ginis using information about wage dispersion, which is available on an annual basis, and factor shares of total income, which can be easily computed⁷. For these estimated Ginis to be unbiased estimators of household inequality, a series of rather unrealistic assumptions have to be met. Nevertheless, the bias will be small if most inequality is originated in the labor market and wage dispersion across industries is a good proxy for overall wage inequality⁸. The 1930-2000 series calculated by Prados de la Escosura is presented in Figure 1⁹.

⁴ Reassuringly, these results are in line with the stylized facts reported by previous analysis of this data: Pena (1996), Álvarez *et al.* (1996) Gradín (2002), Goerlich and Mas (2001), del Río and Ruiz-Castillo (2001). See also the review by Cantó *et al.* (2000).

⁵ In fact, although the evolution of inequality after 1991 is beyond the scope of this article, it seems that this process of income equalization came to an end in the 1990s. While Spain was one of the few OECD countries to reduce inequalities in the 80s, Spain was among those who witness no change in its income distribution in the 1990s (OECD 2008). This suggests that there might be some limits in the effectiveness of the political strategies used to reduce inequalities in the 80s.

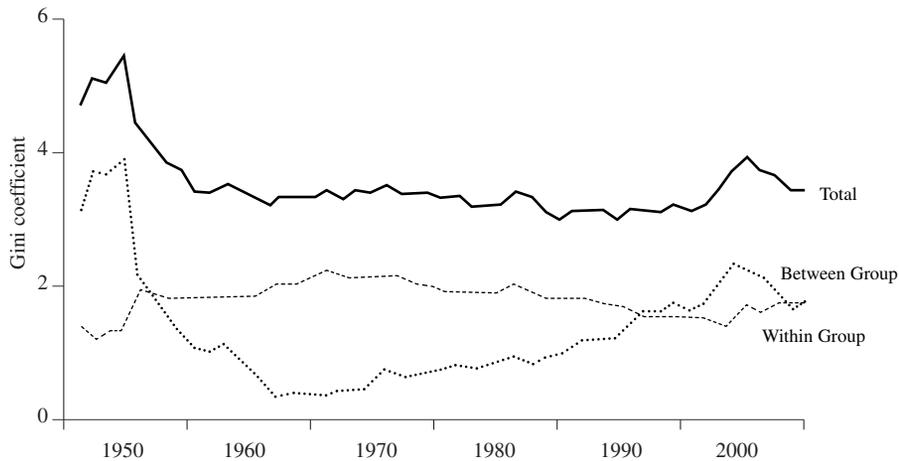
⁶ The analysis of inequality ends in 1991 because this is when the structural transformations I am interested in ends, but also because the INE decided not to conduct a new household budget survey in the 2000s. Using other sources (see Ayala and Sastre 2007 for a discussion of these), the consensus is that the distribution of income remained relatively stable or worsened slightly in the 1990s and early 2000s (Álvarez-García *et al.*, 2002; Ayala and Sastre, 2007; Cutanda *et al.*, 2006). It seems therefore that the process of equalization of incomes observed in the previous decades had come to an end in the 1990s.

⁷ His methodology is based on the fact that the gini can be decomposed between within-factor and across-factor inequality: $Gini = \sum G_i p_i \pi_i + \sum ((y_p - y_l)/y_l) \pi_l p_p + L$. The first term corresponds to within-factor inequality where subscript i for each factor of production (capital and labor) and p and π are population and income weights. The second term to between-group inequality, which is proxied by the relative distance between property owners' income and labor returns, weighted by the product of the labour returns' share in national income (π_l) and the property owners' share in population (p_p). L is the overlapping component.

⁸ This is the case because there is no proxy for within-factor inequality for non-labor income, so Prados is forced to make the assumption that the evolution of capital inequality mimics the dynamics of labor inequality. In other words, all estimated changes in within-factor inequality are the result of changes in within-labor equality.

⁹ I thank Leandro Prados de la Escosura for sharing his data.

FIGURE 1
BETWEEN-FACTOR AND WITHIN-FACTOR INEQUALITY



Source: Ginis calculated by Prados de la Escosura (2008).

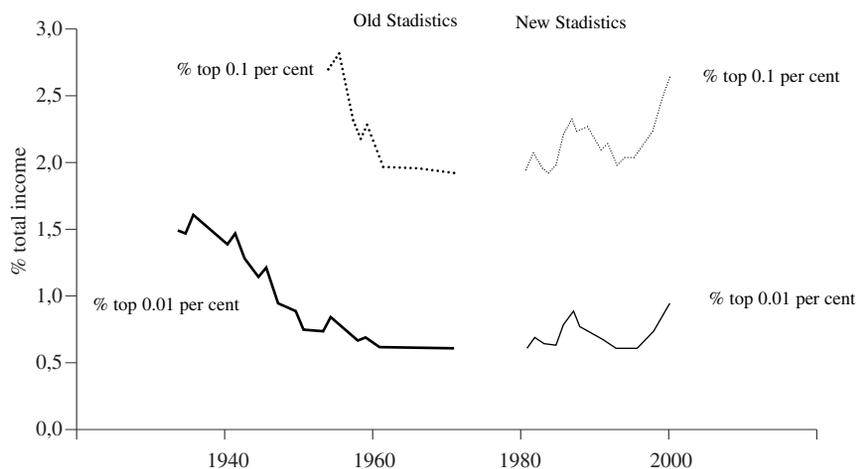
According to Prados' data, inequality fell dramatically between the mid-50s and the mid 60s, and kept decreasing at a slower rate until the 1990s, when it begun to increase. The figure also shows that the drastic fall in the difference between returns to capital and labor was responsible for this process in the mid-50s. Prados speculates that the volatile growth of the 50s might have been particularly pro-labor, perhaps reinforced by the populist policies of the regime. Inter-factor inequality continued to decline until the heydays of the economic boom in the late 60s. From then on, the mild reduction in overall inequality was the result of (also mild) reductions of intra-factor inequality (i.e. a more egalitarian distribution of wages).

Using tax revenue data, Alvaredo and Saez (2006) have calculated the share of total income belonging to the top income groups in Spain. Because of the restricted nature of the tax base in Spain, it is only possible to obtain estimates of income for the 0.01% top income group since the 1930s, and for the 0.1% since the mid-50s. Figure 2 presents the evolution of the income shares of these two groups since the 1930s.

These estimations reflect a significant and steady decline in wealth concentration until the 70s, and a volatile increase when the new data from the 80s onwards is used. The latter is roughly consistent with Prados' egalitarian result for the 50s, although the drop in capital income seems to precede the 1950 policy changes, suggesting that this equalizing outcome was initially the result of the re-agrarization of the Spanish economy in the aftermath of the civil war¹⁰. At any rate, both Prados' estimates and the tax data indicate that the economic development of late Francoism coexisted with reductions in income inequality.

¹⁰ While non-farm businesses made up to 26 per cent of the 0.01 per cent top income distribution in 1941, this percentage had dropped to 9 per cent by 1954 (Alvaredo and Saez, 2006: 14).

FIGURE 2
TOP INCOME SHARES IN SPAIN FROM TAX STATISTIC, 1930-2000



Source: Alvaredo and Saez (2007).

A final aspect worth considering in this brief overview of the evolution of the distribution of income in Spain refers to the territorial dimension of inequality. The historical process of economic modernization in Spain has been typically depicted as a highly uneven one – with most development occurring in a few economic hubs, namely Catalonia, the Basque Country, Madrid plus other minor economic centers. A look at the evolution of the variation of per capita income across Spanish regions reveals that the relative differences of the regional to the national per capita income did go up after the civil war, but greatly decreased in the economic boom years (Carreras *et al.*, 1987).

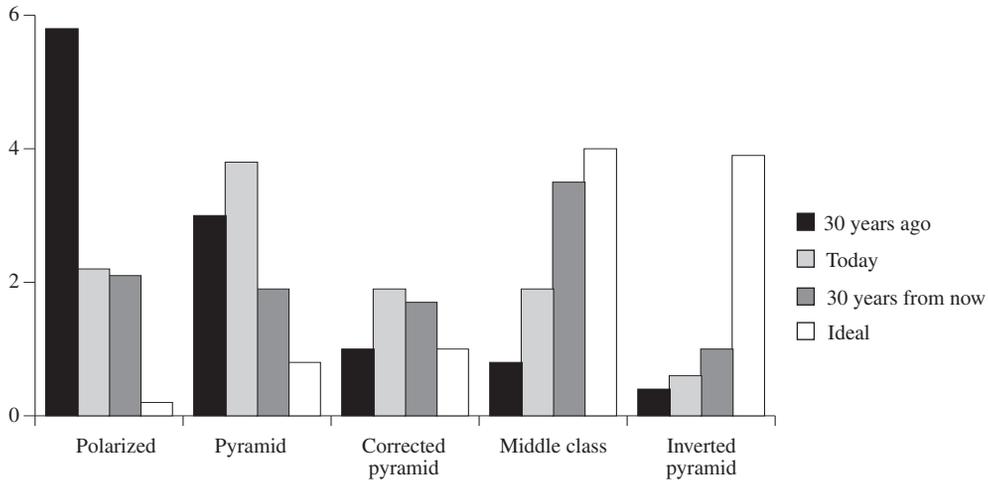
All in all, the available data suggests that income inequality declined in Spain from the economic boom of the 1960s to the 1990s. Although the democratic period witnessed reductions in inequality, the process of equalization of incomes was even more intense under the process of economic expansion in the late Francoism. When the democracy arrived in 1975, Spain was already a relatively egalitarian country: according to the inequality indexes included in the Deininger and Squire dataset calculated on the basis of income between 1970 and 1975 and the Spanish Gini for 1973-74 reported above, two thirds of the countries included in the global dataset had a more unequal distribution of income than Spain.

These profound changes in the income distribution over time did not go unnoticed by the public opinion. Figure 3 uses data from a survey conducted by the Center for Sociological Research (CIS) in 1993¹¹ and presents the proportion of respondents characterizing the Spanish distribution of income in 1963 (thirty years before the survey was conducted), in 1993 (the year of the survey), and the one they expect for 2023 (30 years ahead), along with their preferred one. More than half of the respondents characterized the «past» income distribution

¹¹ Survey 2046, Centro de Investigaciones Sociológicas.

as a polarized one with a small elite at the top, very few people in the middle, and most at the bottom. There was much more variation in characterizing the «current» distribution: only one in five defined it as a polarized society, and almost forty per cent characterized it as either a corrected pyramid (with few people at the very bottom) or a society with most people in the middle. Spaniards saw the current income distribution closer to their ideal one, and were optimistic about further advances in equality in the future.

FIGURE 3
PUBLIC VIEWS ON INCOME DISTRIBUTION IN SPAIN



Polarized: Small elite at the top, very few people in the middle the great mass at the bottom.

Pyramid: A small elite at the top, more people in the middle, and most at the bottom.

Corrected pyramid: A pyramid except that just a few people are at the very bottom.

Middle class: A society with most people in the middle.

Invertid pyramid: Many people near the top, and only a few near the bottom.

Source: CIS (1993).

In sum, Spain grew and become more egalitarian simultaneously, and periods of intense growth neither stopped nor slowed down the process of income equalization. Indeed, what is remarkable in the Spanish case is that, in spite of changing economic and political conditions from the 1960s to the 1990s, inequality receded throughout all these years. Although this may suggest the presence of some permanent egalitarian structural forces at work, the underlying determinants of the equalization of the distribution of income have been very different across time, as we shall see below.

METHODS FOR DECOMPOSING INEQUALITY

As indicated before, comparable household budget macrosurveys (the Encuestas de Presupuestos Familiares, EPFs) have been conducted in 1973-74, 1980-81, and 1990-91, facilitating the comparison of the decomposition analyses across time. For each of these

three surveys, two sets of decomposition exercises are conducted: by population subgroup, and by income source.

The decomposition of total inequality by population subgroups offers the opportunity to see how social and demographic differences between households are associated with different income levels and therefore how do they contribute to overall inequality. The Theil inequality indexes reported above in tables 1 and 2 are additively decomposable into between and within group inequality (Shorrocks, 1984):

$$Theil_{TOTAL} = Theil_{WITHIN} + Theil_{BETWEEN}$$

and

$$Theil_{WITHIN} = \sum_{j=1}^J s_j Theil_j$$

where j is each subgroup into which the population has been subdivided and s refers to the share of total income held by that group. The between-group inequality is calculated by assigning the subgroup mean income to all members of each subgroup and obtaining the corresponding Theil index.

Given the data that these surveys provide on income sources, a second decomposition exercise can be conducted, by analyzing the contribution of each source of income to total inequality. Following the Gini decomposition procedure suggested by Lerman and Yitzhaki (1985), the total Gini coefficient can be represented as follows:

$$Gini_{TOTAL} = \sum_{k=1}^K s_k Gini_k r_k$$

where s_k , $Gini_k$ and r_k represent, respectively, the share of source k in total income, the Gini for the distribution of the k income source, and the Gini correlation of income from source k with the distribution of total income. Put simply, the effect of the k source of income on total inequality depends on three parameters: how important is that income source with respect to total income (s_k), how evenly distributed is the income source ($Gini_k$), and the correlation between that income source and the total income distribution (r_k): an income source might be equalizing even if is unequally distributed as long as it tends to benefit poor households. Now we can ask what is the effect of changes of an income source in overall inequality. Stark *et al.* (1986) show that the partial derivative of the Gini with respect to a 1 percent change in source k equals this expression:

$$\frac{\partial Gini}{\partial e} = s(Gini_k r_k - Gini_{TOTAL})$$

Dividing this expression by the overall Gini gives us the source's marginal effect relative to the Gini:

$$\frac{\partial Gini / \partial e}{Gini} = \frac{s_k Gini_k r_k}{Gini} - s_k$$

THE EGALITARIAN ECONOMIC BOOM UNDER THE DICTATORSHIP

We lack comparable microdata to analyze the evolution of inequality under the dictatorship, but there is abundant evidence suggesting a strong reduction of income inequality in the 1960s and early 1970s. First, the Gini coefficient reported by the INE for 1963-64 (see Table 1) is substantially higher than the one calculated for the 1973-74 survey. The difference in magnitude seems to be large enough to be robust to changes in methodology¹². Perhaps most importantly, a closer look at other sources of data suggests a twofold process of income equalization. First, as Prados' data indicates, labor income increased significantly after the 1950s, although the big increases preceded the stabilization plan¹³. Second, wage inequality plummeted during the economic expansion. The wage ratio between college graduates and the group of least skilled workers fell from 4.5 in 1963 to 3.7 in 1973, resulting in a reduction of the Gini for wage income between these years from 0.21 to 0.18 (Revenge, 1991).

The inequality decomposition analyses for the 1973-4 survey provides further insights in the underlying determinants of the income distribution in these years. Table 3 decomposes the Theil index into its between-group and within-group components, considering differences between households in region of residence, educational attainment and social class of the household head, and rural/urban population subgroups¹⁴.

TABLE 3
INEQUALITY DECOMPOSITION BY POPULATION SUBGROUP, 1973-1974

	Regional	Socio-economic category	Education	Rural
Theil	.222	.222	.222	.222
Within	.200	.171	.203	.204
Between	.022	.051	.019	.017

Geography was playing a relatively marginal role in explaining overall inequality by the end of the Francoism –neither regional differences nor the rural-urban divide explain a large share of total inequality. Differences in income between socioeconomic groups were on the contrary rather significant: about a quarter of total inter-household inequality can be accounted for by average differences in income across the seven socioeconomic groups identified by the variable «class».

¹² Ginis calculated by other studies for 1973-74 are very close to the one reported in table 1, and are well below the reported by Alcaide for 1964. Gradín (2002) and Goerlich and Mas (2002) report Ginis of 0.352, and 0.342, respectively.

¹³ Indeed, Prados attributes the drastic changes in labor shares to the populist policies of the mid-1950s.

¹⁴ «Region» divides between the seventeen autonomous communities, «class» between seven socioeconomic groups (agricultural workers, agricultural middle class, blue collar workers, working class, small business, middle class, upper class, and retirees), «education» between four groups (without studies, elementary, secondary and tertiary education), and «urban/rural» between those living in municipalities with more than 10,000 inhabitants and the rest. The same definitions of groups apply to all subsequent decomposition analyses by subgroup.

TABLE 4
INEQUALITY DECOMPOSITION BY INCOME SOURCE, 1973-1974

Source	Share of total income	Source Gini	Gini correlation	Contribution to inequality	Effect of 10% Change on the Gini
Self-employment	0.3065	0.7033	0.5825	0.3577	0.512
Wage income	0.5600	0.5514	0.6535	0.5749	0.149
Unearned income	0.0224	0.9786	0.6283	0.0392	0.168
Social transfers	0.1054	0.8265	0.0676	0.0168	-0.886

The relatively egalitarian effects of the labor market are further demonstrated in the Gini decomposition by income source presented in table 4. Household wage income did not contribute much to overall inequality: as the last column of table 4 indicates, an hypothetical 10% universal increase in wages would have caused the total Gini to increase by a tiny 0.15%, even though income from wages represented 56% of total income. State-based redistribution was on the contrary very minor (roughly one tenth of total household income came from transfers¹⁵), and as a result contributed little to equality: a 10% increase in transfers to all households would have resulted in less than a 0.9% reduction of the Gini.

Given the rather marginal redistributive role played by the state during the dictatorship, it is highly unlikely that state-based redistribution was responsible for the reduction of income differences in the 1960s and early 70s. To be sure, there are ways of affecting the income distribution without transferring resources directly, but the proponents of that approach at the time (the falangists in the Labor Ministry who tried to redistribute by regulating the labor market and imposing universal pay rises) were effectively ousted from economic policy as a result of the cabinet reforms that preceded the adoption of the economic reforms in 1959. It is much more plausible that income equalization was a rather unintended consequence of demand and supply forces in the labor market.

One first non-state explanation for the observed reduction of inequalities is that Spain started to benefit from the downward slope of the Kuznets curve after some point around 1960 (Prados de la Escosura, 2008). The intensification of structural changes in the sectoral composition of employment (the movement of people away from agriculture and into services and industry) are compatible with this view. However, according to Prados' data, the decline in inequality in the economic boom years was the result not of increasing within-factor equality, but rather of between-factor equality.

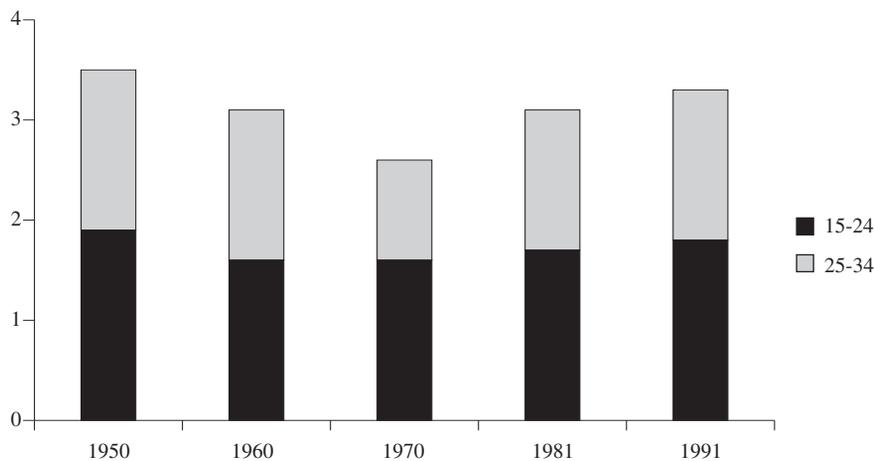
An alternative explanation is the markedly international character of the Spanish economic expansion. In a standard Stolper-Samuelson framework, the process of economic integration in the world economy of a country relatively well endowed with unskilled labor is expected to yield egalitarian consequences, as the demand for the factors owned by the poor (unskilled labor) increases relative to the demand for other factors of production. This mechanism could

¹⁵ This is probably an overestimate, as the 1973 survey does not distinguish between public and private transfers.

have been amplified by the competitiveness effect of the currency devaluation, the fact that Spain selectively liberalize only with more advanced countries (mostly Western Europe) and the massive arrival of foreign direct investment in the aftermath of the Spain-US agreements of the mid-50s. All these changes should have driven up the demand for unskilled labor, thus reducing inequality.

But along with these «demand» forces, there are also important «supply» factors that contributed to increase the price of labor, effectively magnifying these equalizing trends. First, the timing of the acceleration of this structural transformation, which can roughly situated around the adoption of the stabilization plan of 1959, coincided with the beginning of a contraction phase in the available labor supply. The origins for this «egalitarian demographic gift» must be found in the consequences of the civil war (1936-39) and the post-war years, which reduced the size of the cohorts that were entering the labor market at the time of the economic expansion. As Figure 4 shows, the drop in the birth rate during the civil war years¹⁶ implied that, precisely at the time in which work opportunities were being expanded, the young cohorts that were entering into the labor market were unusually small. It is very likely that these demographic patterns, by increasing the price of labor at a time in which structural transformations were increasing its demand had substantial egalitarian effects.

FIGURE 4
POPULATION SHARES BY AGE GROUP, 1950-1991



Source: Census data.

Migrations also contributed in several ways to equalize incomes during the economic expansion of the 1960s. The devaluation of the peseta, the extraordinary surge in unskilled labor demand in continental Europe, along with a deliberate policy to foster migration to

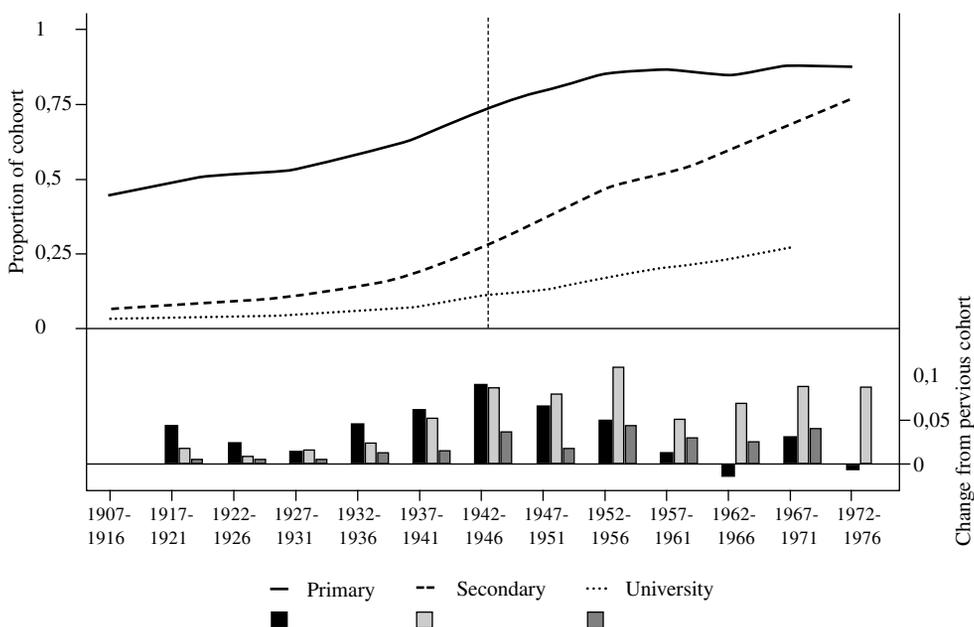
¹⁶ Note that the civil war «valley» covers not only the years of militarized conflict (1936-39), but also the post-war years. With the exception of 1939, in which there was an ephemeral upsurge of births as a result of the end of the war, the pre-war level of births were not reached until 1942.

Europe to increase remittances as a source of foreign exchange¹⁷ contributed to a significant reduction of the pool of available workers in the domestic economy, rising the wages of those left behind.

International migration was however minor compared with the huge inter-regional migration flows that were taking place within Spain. The egalitarian effects of these movements of people were twofold. First, migration from the rural areas to the industrializing hubs allowed workers to participate in the expanding economic sectors. Second, these high levels of domestic migration also reduced dramatically the labor supply in economic backward regions, increasing the wages of those who remained in the countryside. From 1958 to 1965, agricultural wages grew by more than 50% (Martínez Alier, 1968). Indeed, the larger migration flows coincided with the period of greater equalization of incomes across regions, suggesting that internal migration was closely linked to the reduction of inter-regional inequality.

Finally, the limited role that access to human capital formation played in the income distribution must be understood in the light of the expansion of elementary and secondary education in the 60s and 70s. Figure 5, which uses survey data from 1991¹⁸, shows that the cohort with a largest growth in completion of elementary education actually was the one that entered the labor market at the beginning of the economic expansion.

FIGURE 5
EDUCATIONAL PROGRESS IN SPAIN



¹⁷ From 1960 to 1973 about 2 million Spaniards migrated to continental Europe (Ródenas, 1994).

¹⁸ INE Sociodemographic survey, 1991.

To summarize, market forces seemed to be responsible for the decline in inequality during the economic boom. The process of internationalization of the Spanish economy benefited the owners of the factor of production with which Spain was relatively well endowed: low-skilled workers. Additionally, some Spain-specific factors further contributed to make growth even more egalitarian: the coincidence of the bust in labor demand with the entry of smaller cohorts of Spaniards in the labor market, the large international and internal migrations that contributed to spread growth territorially, and a steady process of educational upgrading.

ECONOMIC CRISIS, POLITICAL TRANSITION AND INEQUALITY REDUCTION

The end of the dictatorship coincided with profound transformations in the Spanish economy: two oil crises, monetary mismanagement in the late Francoism, increasing militant union activity in the 70s, skyrocketing inflation, and massive unemployment. How did the process of equalization of incomes continue under such drastic change of environment?

The inequality decomposition analyses for the 1980-81 presented in table 5 suggests that the determinants of inequality in the transition years were different in some important ways from those of the previous period. First, all the within-subgroup Theils fell in roughly the same proportion as the overall Theil, suggesting that the reduction of inequalities was universal, both across and within population subgroups. There was however one important exception: education. While differences in average income across educational groups explained 8.5 per cent of the total inequality in 1973-74, this percentage went up to 12 per cent in 1980-81. Indeed, there is abundant evidence from data on wages showing that, in spite of the general trend towards greater wage equality, differences in education were becoming more important in explaining differences in earnings in the mid-70s (Barcenas *et al.*, 2000, Bover *et al.*, 2000).

TABLE 5
INEQUALITY DECOMPOSITION BY POPULATION SUBGROUP, 1980-1981

	Regional	Socio-economic Status	Education	Rural
Theil	.182	.182	.182	.182
Within	.170	.143	.160	.173
Between	.012	.039	.022	.009

The rise in the educational premium can be understood as an inevitable result of development: Spain was losing its comparative advantage in low-skill manufactures and the intensification of skill-biased technological reduced the demand for the less educated workers. But then, how can this be married with the observed reduction in inequality? Part of the answer lies in the changes of the institutional environment in which the labor market operated. The old labor relations system based on legally-guaranteed job security and high wage dispersion (the government impose vary rigid norms to fire workers, while the determination

of wages was left to individual firms) was already undergoing serious transformations during the early 70s, and eventually collapsed along with the dictatorship. The new emerging model of labor relations system had two important characteristics: first, wage determination was going to depend on collective wage agreements negotiated between unions and business peak associations at the sectoral/provincial level, and workers' interests would be represented by two relatively centralized union confederations. The existence of coordinating wage bargaining institutions has been recognized to be the best predictor of wage equality (Gottschalk and Smeeding, 1997; Katz and Autor, 1999; Wallerstein, 1999), and the Spanish case was going to be no exception (Toharia, 1985). As figure 6 shows, the transition to the new system of labor relations indeed went together a significant decline in wage dispersion, in contrast with the increasing levels of wage dispersion observed at the time in most OECD countries.

FIGURE 6
WAGE DISPERSION ACCORDING TO WAGE SURVEYS, 1970-1985



Coefficient of variation of average earnings per worker across industries.
Calculated from Wage Surveys by Garcia Perea (1991)

The new system of industrial relations and the increasing role of unions in wage determination were not the only egalitarian forces that the arrival of democracy unleashed. The new democratic regime also expanded the size of the state. To see how the growth of public spending translated in reductions of inequality, it is useful to look at the income decomposition results by income source presented in Table 6.

In the seven years between the two surveys, the percentage of social transfers as a proportion of total household income increased seven percentage points, reaching 17.5 per cent¹⁹. Moreover, the fact that this source of income was targeting disproportionately the low-income households (the Gini correlation was almost zero) doubled its redistributive character

¹⁹ In fact, this is probably an underestimate, since the definition of public transfers in the last two EPFs (1980-81 and 1990-91) was narrower than for the 1973-74 survey.

relative to 1973-74: now a ten per cent increase in income from this source would have caused the overall Gini to drop by 1.7 per cent.

TABLE 6
INEQUALITY DECOMPOSITION BY INCOME SOURCE, 1980-1981

Source	Share of total income	Source Gini	Gini correlation	Contribution to inequality	Effect of 10% Change on the Gini
Self-employment	0.2687	0.6404	0.4856	0.2648	-0.0039
Wage income	0.5338	0.5782	0.7020	0.6867	0.1528
Unearned income	0.0145	0.9832	0.5848	0.0264	0.0119
Social transfers	0.1750	0.7321	0.0041	0.0017	-0.1733

It might seem difficult to reconcile the fact that while labor market institutions were making wage inequality to recede, wage income was becoming increasingly regressive. A comparison of the last columns of tables 4 and 6 shows that, while wage income was distributionally neutral in 1973-74, it became regressive in 1980-81: the Gini elasticity was in magnitude roughly the same than for social transfers, but with opposite sign. The answer to this puzzle lies in the increase in unemployment in those years, which affected primarily low wage workers: since fewer (and richer) households were receiving income from wages, their overall effect on inequality was regressive, in spite of these wages being distributed more evenly (Bover *et al.*, 2000).

INCOME EQUALIZATION UNDER DEMOCRACY

The 1980s witnessed some important economic and political changes with potential effects on the reduction of inequality. Spain intensified the liberalization of its economy, and in 1986 entered into the European Economic Community, bringing a massive inflow of foreign direct investment and consolidating the Spanish economy's commitment to free markets. In the political front, the 1982 general election marked the beginning of a protracted socialist control of the government until 1996. To analyze to what extent these factors might account for the reduction of inequality, tables 7 and 8 present the result for the inequality decomposition exercise by population subgroup and by income source using the information from the 1990-91 survey.

TABLE 7
INEQUALITY DECOMPOSITION BY POPULATION SUBGROUP, 1990-1991

	Regional	Socio-economic Status	Education	Rural
Theil	.167	.167	.167	.167
Within	.154	.148	.157	.160
Between	.013	.019	.010	.007

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What is remarkable in the 1990-91 survey is the drastic reduction in differences across classes and educational groups: in spite of the general trend towards greater equality, inequality within classes actually increased in the 80s, while inequality between the seven socio-economic status categories fell significantly. It went down from representing 21.4 per cent of total inequality in 1980 to just 11.3 per cent a decade later. Indeed, all of the reduction of overall inequality in the 80s can be explained by reduction in inter-class differences. Note that this reduction of inter-class differences need not be within the active population, as this result might mask a reduction in differences across persons with different activity profiles²⁰. Income differences between households with different educational levels were also being dramatically reduced in the 80s²¹. Although this result might mask a compositional effect (low educational categories were becoming less populated and therefore could account less for overall inequality), this result probably indicates the impact of certain universal welfare programs that were expanded in this period (such as non-contributory pensions) that were benefitting disproportionately low-educated groups.

TABLE 8
INEQUALITY DECOMPOSITION BY INCOME SOURCE, 1990-1991

Source	Share of total income	Source Gini	Gini correlation	Contribution to inequality	Effect of 10% Change on the Gini
Self-employment	0.2908	0.5680	0.5635	0.3152	0.0244
Wage income	0.4517	0.5941	0.6421	0.5834	0.1317
Unearned income	0.0141	1.7554	0.3550	0.0297	0.0156
Social transfers	0.2433	0.6405	0.1357	0.0716	-0.1717

The inequality decomposition by income source gives a sense of the increase in government spending during the 1980s. By the end of the decade, one fourth of total household income came from state transfers, which were having an important egalitarian effect (Ayala *et al.*, 1996; Bellido Ortega *et al.*, 1996).

Transfers not only grew in size. As the welfare state expanded, they became more universalistic and less targeted towards low-income families (the Gini correlation is higher than in the previous surveys). As a result, in spite of representing a larger share of household income, the hypothetical effect of a 10 per cent increase in income from this source would have caused now the same decrease in inequality than in ten years before, roughly below 2 per cent.

²⁰ Pensioners were among the biggest beneficiaries of some of the progressive policies that reduced inequalities in the bottom half of the income distribution during this period.

²¹ Del Río and Ruiz-Castillo (2001) arrive at similar results: that the reduction in income differences between households with different socioeconomic characteristics and education levels accounted for most of the reduction in household inequality in the 1980s.

THE POLITICAL ECONOMY OF REDISTRIBUTION IN SPAIN

Given the role that public policies seem to have played in the reduction of inequalities in democratic Spain, it is worth asking what are the political-economy underpinnings of these policies.

The most obvious determinant of preferences for redistribution is the individual's position in the income distribution. Typically, this implies that greater inequality should lead to greater demand for redistribution (Meltzer and Richard, 1981). However, the empirical evidence has consistently show that the relation seems to be the opposite—higher levels of redistribution are observed in the more equal countries. It might be that redistribution is a side-consequence of demands for insurance against market-related risks, and these demands are greater when inequality is low (Iversen and Soskice, 2006; Moene and Wallerstein, 2001). Or it might also be that clientelistic, non-redistributive, policies are more attractive in highly unequal countries. The Spanish experience seems to give support to the equality-breeds-redistribution hypothesis. At the time of the arrival of democracy, support for redistribution was virtually universal, as I shall show below.

While preferences toward redistribution in most political-economy models depend exclusively on pocketbook considerations, the maximization of private benefits need not be the only determinant of public attitudes towards redistributive policies, as these might also reflect systematic differences across societies in beliefs about what determines income levels or notions of fairness. Where do these differences come from is unclear²², but the evidence suggests that there are non-negligible society-specific factors in the overall political demand for redistribution (Alesina and Giuliano, 2010). Table 9 uses public opinion data from 1999 for the twenty-five countries included in the International Social Survey Program (ISSP) to analyze the relative position of Spain in this «latent» demand for redistribution²³.

TABLE 9
SUPPORT FOR GOVERNMENT-LED REDISTRIBUTION ACROSS COUNTRIES. ORDERED PROBIT ESTIMATES. DEPENDENT VARIABLE: IT IS THE GOVERNMENT RESPONSIBILITY TO REDUCE INCOME INEQUALITIES (SEE TEXT)

	(1)	(2)	(3)
Income	-0.0243*** (0.00368)	-0.0284*** (0.00392)	-0.0672* (0.0327)
Income (subj)	-0.0704*** (0.00854)	-0.0474*** (0.00931)	0.0408 (0.0524)
Education	-0.0931*** (0.00648)	-0.0956*** (0.00693)	-0.0393 (0.0424)
Sex	0.0907*** (0.0159)	0.0929*** (0.0169)	0.0208 (0.0879)

²² Culture and indoctrination are potential candidates. Giuliano and Splimbergo (2008) suggest that a past story of macroeconomic volatility generate stronger preferences for redistribution.

²³ This was the first ISSP survey on attitudes towards inequality that included Spain.

TABLE 9
SUPPORT FOR GOVERNMENT-LED REDISTRIBUTION ACROSS COUNTRIES. ORDERED PROBIT ESTIMATES. DEPENDENT VARIABLE: IT IS THE GOVERNMENT RESPONSIBILITY TO REDUCE INCOME INEQUALITIES (SEE TEXT) (CONT.)

	(1)	(2)	(3)
Union	-0.121*** (0.0195)	-0.0814*** (0.0206)	-0.507** (0.155)
Age	-0.00101 (0.000514)	-0.00134* (0.000553)	-0.00119 (0.00284)
Left	0.123*** (0.0189)	0.0857*** (0.0200)	0.146 (0.0983)
Right	-0.165*** (0.0212)	-0.121*** (0.0223)	-0.0383 (0.118)
Large ineq.	0.623*** (0.0117)	0.521*** (0.0130)	0.870*** (0.0838)
Spain	0.247*** (0.0380)	0.161*** (0.0400)	
Ex-soviet bloc	0.256*** (0.0189)	0.179*** (0.0214)	
Working class	0.133*** (0.0341)	0.130*** (0.0360)	0.168 (0.289)
Upper class	0.0592 (0.0307)	0.0752* (0.0322)	0.169 (0.271)
World ineq		0.171*** (0.0130)	0.0640 (0.0748)
Family		0.0488*** (0.00916)	0.0203 (0.0554)
People		0.0179 (0.0103)	0.146* (0.0700)
Effort		0.0253* (0.0110)	0.0182 (0.0554)
Skills		0.0302** (0.0112)	-0.0614 (0.0575)
Rich benefit		0.159*** (0.00953)	0.185** (0.0621)
Prosperity		0.0517*** (0.00841)	-0.0199 (0.0410)
Pseudo R2	.159	.160	.149
N	22063	19684	724

Ordered probit coefficients. Cut-off points not reported. Standard errors in parentheses.

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Source: Data from the International Social Survey Program, 1999.

The dependent variable of the three ordered probit models whose coefficients are presented in the table is the respondent's degree of agreement with the sentence «It is responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes», in a 5-point scale, from strongly disagree to strongly agree.

The first column estimates a baseline model including the income level of the respondent (in a country-specific scale), the subjective self-placement of the family in the income distribution (1 to 7), the educational level of the respondent (from 1 to 7), the individual perception of how large inequalities are (ranging from 1 to 5), age, and dummies for gender, union membership, left and right ideology, and working and upper classes. Given the unusually proegalitarian attitudes of former Communist countries, a dummy variable is included for observations obtained in these countries, so that the Spain dummy indicates the level of the dependent variable compared to the non-ex-communist bloc²⁴. All coefficients have the expected signs: women, the poor, the less educated, those living in countries with a communist past, workers, leftists, and union members tend to agree more with the statement that it is the government responsibility to equalize incomes. The surprising result is the magnitude of the dummy for Spain: controlling for all these determinants at the individual level, Spaniards are significantly more pro-redistribution than the average respondent, and are actually statistically indistinguishable from those living in ex-communist countries (the magnitude of the two dummies is roughly the same). Some of these differences across countries might reflect differences in some measurable notions of justice (to agree in a 1-5 scale to the statement that differences between rich and poor countries are too large) or beliefs about the existence of «unfair» determinants of income²⁵, as column 2 shows, but the Spain dummy is still large and significant. Figure 7 plots the predicted probability of strongly supporting the idea that government should equalize incomes by income for Spain and for the global sample excluding the ex-communist bloc. It is striking that the effect of moving two standard deviations in the income scale variable increases the support for redistribution *less* than just living in Spain.

The third column in table 9 runs the same model, but only for the Spanish sample. Most of the variables decrease in size and are less statistically significant, suggesting perhaps that there is less conflict over redistribution in Spain. A close inspection of the data reveals how universal support for government's role in reducing inequalities is in Spain. Even among those reporting a monthly household income greater than 200,000 pesetas (the richest 15 per cent, according to the survey), 78.5 per cent agreed that it was the responsibility of the government to reduce income differences between the rich and the poor²⁶.

The degree of redistribution in democracies does not exclusively depend on its demand, but also on certain institutional characteristics of the political system that makes its *supply* more or less attractive for politicians. Table 10 lists some of the main institutional variables that have been associated with a higher provision of redistribution in the literature.

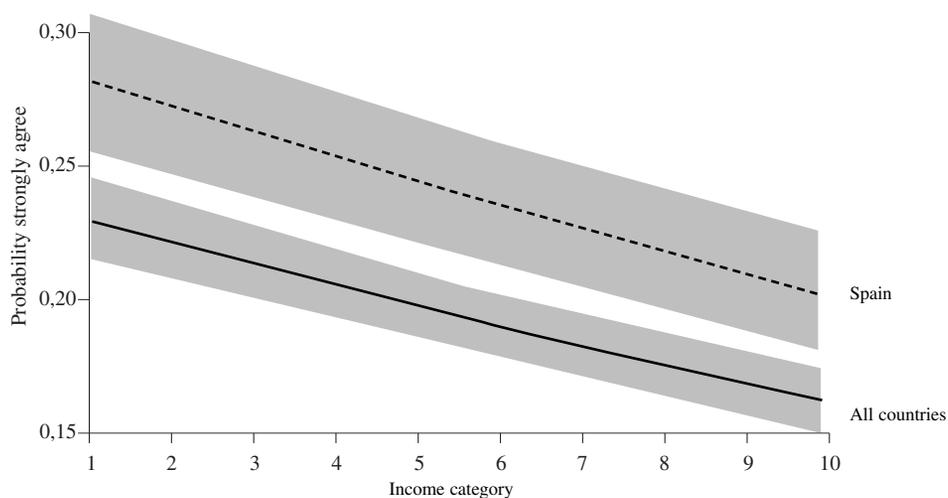
²⁴ To be sure, this is a highly heterogeneous group of countries, so the dummy merely reflects whether Spain is different or not with respect to the «western bloc» average, which may not be extremely meaningful. However, by including an «eastern bloc dummy» one can also see how does Spain compare to a set of countries that are well-known to have particularly (and internationally «abnormal») pro-redistribution preferences (Alesina and Giuliano, 2010). I thank an anonymous referee for forcing me to clarify this point.

²⁵ Those believing that, to get ahead, it is important to come from a wealthy family or to know the right people, that effort and skills are not rewarded, that inequalities exist because it benefits the rich, or that inequality is not necessary for prosperity should be more pro-redistribution.

²⁶ Part of the reason might lie in the perceptions that Spaniards have about the consequences of income equalization. In a survey conducted in 1993 (CIS 2046), respondents were asked how would they think they would be affected if income differences were to be reduced. Even among those in the top income category (above 200,000 pesetas), 53.1 per cent believed that their incomes would probably go up.

FIGURE 7

PROBABILITY OF STRONGLY AGREEING WITH THE STATEMENT «IT IS THE GOVERNMENT RESPONSIBILITY TO REDUCE INCOME DIFFERENCES», BASED ON MODEL 2 FROM TABLE 9



Shaded areas represent 90% confidence intervals.

TABLE 10
POLITICAL INSTITUTIONS AND EXPECTED EFFECTS ON REDISTRIBUTION

Variable	Expected effect on redistribution	Spain
Number of veto players	-	Little constraints on the executive
Federalism on redistributive policies	-	Decentralization, but strong role of central government
Proportional representation	+	Proportional representation adopted before the first democratic election (1977)
Large and cohesive parties	+	Little fragmentation and strong internal party discipline
Socialist party in government	+	Single-party PSOE government (1982-1996)

First, the greater the number of veto players (i.e. the number of actors whose acquiescence is necessary to change policy) the less likely is that (redistributive) reforms will gather enough support to be implemented. The Spanish Constitution of 1978, although formally recognized the principle of separation of powers, opted for a parliamentary system and a highly politicized system of selection of the high ranks of the judicial branch. Moreover, Spain has always had single-party governments and from 1982 to 1993 the Socialist government even enjoyed an absolute majority in parliament. This lack of institutional constraints on the executive greatly facilitated the implementation of (redistributive) sweeping policy reforms. Second, it has been argued that federalism would decrease the overall level of state spending and redistribution. Although Spain has become a rather decentralized state by many

accounts, most of the redistributive policies remained effectively under the control of the central government during most of the period analyzed here.

A number of partisan and institutional variables have been linked in the literature with a greater predisposition of governments to adopt universalistic and redistributive spending policies, as opposed to clientelistic ones. The type of electoral system is probably the most studied one, as it clearly influences the politicians' incentives to cater to particularistic demands (Austin-Smith, 2000; Persson and Tabellini, 2003). Typically, proportional representation systems are believed to be more favourable to broad-based redistribution because they reduce the incentives of politicians to target benefits to narrow constituencies, as there are no «swing» districts that will decide the outcome of the election²⁷. For similar reasons, universalistic policies are also believed to be more politically attractive when political parties are large (Persico and Lizzeri, 2005) and strong (Primo and Snyder, 2008).

These institutional variables typically move in opposite directions: proportional electoral systems (which according to these views increase redistribution) reduce the incentives to vote for major parties, and therefore tend to produce small parties and coalition governments with many veto players (which limits it). Spain, however, has managed to combine pro-redistribution values in all institutional dimensions. Unsure about its ability to compete unified under a single party label in the first democratic elections of 1977, the government adopted a proportional electoral rule²⁸. Yet the typical effects of proportional rule on the party-system (fragmentation) were strongly muted as a result of the choice of the province as the electoral district. With an average district magnitude of just 6.73 seats, only large parties were able to compete successfully at the national level. As a result, the system turned out to be not particularly proportional in its outcomes (Gunther, 1989; Lago 2008)²⁹.

Political scientists have long emphasized the role of government ideology to explain redistributive policies (Huber and Stephens, 2001; Bradley *et al.*, 2003). The presence of socialist parties in government might facilitate the ability of low-income voters to impose their preferred policies. Here, too, Spain has experienced a particularly favourable scenario for redistribution: the socialist party governed the country for fourteen consecutive years (1982-1996), eleven of which with an absolute majority in parliament.

In sum, not only the demand for redistribution policies in democratic Spain has been remarkably high in comparative perspective, but also key institutional characteristics of the Spanish political system have been particularly hospitable to the introduction of redistribution policies. These two set of factors help explain the *political* reduction of inequalities in the democratic period.

²⁷ In addition, Iversen and Soskice (2006) argue that proportionality produces, on average, more left-wing governments than majoritarian systems, which should also lead to more redistribution (see below).

²⁸ The Spanish case neatly illustrates Boix's (1999) theory about the adoption of proportional representation systems: in his account, proportional systems are introduced when a divided right faces an electoral challenge from the left. The endogeneity of the electoral rule suggests, as Robinson rightly points out, that the electoral rule might be a proxy of other, ultimate determinants of state policies, such as the existence of strong socialist parties.

²⁹ Spain's degree of party fragmentation measured by the Herfindhal index is .63, about half a standard deviation below the mean for proportional systems (.69). If Catalonia and the Basque Country are excluded (the presence of different national identities changes completely the nature of party competition), the index shrinks to .56, a level of fragmentation typically observed in with majoritarian electoral systems (2007).

CONCLUSIONS

In many ways, 1960 Spain looked like an average South American country of the time: although it was richer than Brazil or Colombia, it was poorer than Argentina or Venezuela. Spain would not have been an outlier in inequality either. While its income distribution was a certainly more egalitarian than in most South American countries, differences between the rich and the poor were greater than in Argentina and Uruguay. Three decades later, Spain's per capita GDP nearly doubled that of the richest South American country and had reduced income inequality to levels unknown in the region. This article has attempted to provide some insights about how did this «great divergence» came about.

The process of income equalization in Spain goes back to the liberalizing reforms of the late 50s. The phenomenal economic growth that followed the adoption of the stabilization plan in 1959 was highly egalitarian: modernization and economic integration meant that demand for labor soared, pushing up wages. Yet the changing demand conditions prompted by the structural transformations undergoing in the economy were only part of the story: labor scarcity resulting from the demographic consequences of the civil war, massive external and internal migration movements, which equalize access to opportunities across the territory, and the significant expansion of elementary education helped magnify the egalitarian effects of growth in this period.

At some point in the mid-70s, market forces ceased to produce egalitarian outcomes, but inequality continued to decline, although at a slower pace. The causes of this late reduction of inequalities had to be found in politics. The democratization of the political system implied a profound change in the distributional priorities of the government, and reflected the government's decision to accompany the further liberalization and internationalization of the economy with the expansion of the compensatory role of the state. As the last part of the article has attempted to show, the underpinnings of these policies resided again in demand and supply forces, but now in political «markets»: the electorate's policy preferences, and the institutional environment. To what extent these political-economy factors were successful in struggling against the further inegalitarian forces of the 1990s and 2000 is a question for further research.

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