

# **The evolution of wage inequality in Spain and Portugal over the twentieth century**

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Wage inequality is today one of the main issues of debate both academically and politically. The interest on this issue comprises two different aspects: first, how large is wage inequality and how is it evolving, and second, which are the causes that may explain its evolution.

Regarding the first aspect, whereas the accuracy of statistical information for present economies allows having a relatively good knowledge of the situation based on solid and robust data, this is far from being true in historical terms. The first contribution of this paper is, therefore, the estimation of long term series on wage inequality from the First World War onwards for two peripheral European countries: Portugal and Spain. After reaching a good knowledge on what was going on, it will be possible to move to the other debate: which were the forces that had an influence on the evolution of wage inequality? A historical assessment of this kind will be highly valuable to understand not only what was happening in the past but also some current events. It will allow seeing if we are facing new problems or not, if the policies followed in the past worked properly and if they could also be implemented today. And it will highlight the importance of the context, since the effects of globalization may have been different in the twenties, the sixties and today, because the participants in the world economy have changed and also because the relative situation of each country in the world economy may also have changed throughout time. The same applies to technological change, investment in human capital, labour market regulations, etc.

More concretely, this paper focuses on the influence of labour demand and supply on wage inequality trends. In this regard, two channels may be defined through which those forces have an impact on wage inequality: the inter-sectoral and the intra-sectoral one. The former would affect wage inequality through the emergence and decadence of different economic sectors, whereas the latter would impact inequality through changes in the relative wage of skilled labour. Although these two channels are highly related, because they may be affected by the same variables, the argumentation of this paper will follow this conceptualization that will provide key clues to better characterize the process.

This paper focuses on the cases of Spain and Portugal. It is not the first attempt to measure the evolution of wage inequality in those countries, but it is the most systematic and robust and covers the longest period so far. In the case of Portugal, Pereirinha (1988) measured wage inequality in the industrial sector between 1953 and 1980, and Lains, Gomes and Guilera (2008) studied the period from 1944 to 1974. Both

studies found evidence of an inverted U-curve. Finally, Jimeno et al (2000) have studied the period 1985-95, finding an increase of wage inequality. In the case of Spain, Rosés and Sanchez-Alonso (2004), Vilar (2004), Vilar (2004b), Betrán and Pons (2004) and Prados de la Escosura (2008) are the most relevant studies. According to them, wage inequality decreased during and after the First World War, increased during the twenties and fell again in the thirties. After the Spanish Civil War, wage inequality fell rapidly to increase again from the mid-fifties or early sixties to the early seventies. From then to the mid nineties, it fell again, increasing thereafter until the end of the century.

The novelty of this paper is that it estimates wage inequality with a database containing wages for different skill levels and also different economic sectors. Most previous studies were built upon the between-sector inequality or the within inequality (skills differentials). This new approach will allow having a deeper understanding of the sources of wage inequality as well as which of them were pre-eminent in each historical context and also which of them were driving the evolution of global wage inequality.